**MADURAI KAMARAJ UNIVERSITY**
**(University with Potential for Excellence )**
**DISTANCE EDUCATION**

# M.A.

## First Year

## Public Administration

## Paper - 4

# PUBLIC PERSONNEL & FINANCIAL ADMINISTRATION

**Recognised by DEC**
**www.mkudde.org**

**S 160**

# MADURAI KAMARAJ UNIVERSITY

**(University with Potential for Excellence)**

**DISTANCE EDUCATION**

## M.A. (PUBLIC ADMINISTRATION)

## First Year

## PAPER - 4

# PUBLIC PERSONNEL & FINANCIAL ADMINISTRATION

**Recognised by DEC**

**w.w.w.mkudde.org**

© All copy rights & Privileges are reserved

**S 160**

**Dear student**

We welcome you for joining M.A., Public Administration. One of the paper is Public Personnel and Financial Administration. This paper will help you to understand the practical administration in the sphere of personnel and Financial Administration. Hope this will help you to enrich your knowledge and beneficial to your life.

**Best Wishers**

**Department of Public Administration**

**Paper IV**

# PUBLIC PERSONNEL AND FINANCIAL ADMINISTRATION

## SYLLABUS

Unit - 1 : PUBLIC PERSONNEL ADMINISTRATION

Unit -2 : POSITION CLASSIFICATION, REMUNERATION AND RECRUITMENT

Unit - 3 : PROMOTION AND CARRER DEVELOPMENT PROGRAMMES
CONDUCT AND WORKING RULES, EMPLOYEE'S ASSOCIATION

Unit - 4 : CONDUCT AND WORKING RULES, EMPLOYEE'S ASSOCIATION

Unit - 5 : EVOLUTION AND CONTENTS OF BUDGET IN PUBLIC FINANCIAL ADMINISTRATION

Unit - 6 : BUDGET

Unit - 7 : MINISTRY OF FINANCE

Unit - 8 : AUDIT AND ACCOUNTS

Unit - 9 : ADMINISTRATIVE REFORMS

Unit -10 : RECENT DEVELOPMENTS IN PERSONNEL AND FINANCIAL ADMINISTRATION

**Select Reference :**


1. Hand books Public Personnel administration Rabin Rabin . Jack Rabin Publishers Crc Press
2. Personnel Public Grievances & Penssons – Satish Tiwar.
3. India ( Budget)
   - V.S. Naipaul Publisher Random House Publications.
4. Administration of India / SR Maheshwar Macillan India Ltd.,
5. Speeches and Writings of G.V. Mavalankar, Speech to Public Accounts Committee, p.97.
6. Article 148(3) and 149 of the Indian Constitution.
7. Administrative Reforms Commission: Report on Finance, Accounts and Audit.
8. Asok Chanda, op.cit., p.249.

# SCHEME OF LESSONS


| Lesson No. | Subject | Page No |
|---|---|---|
| Unit -1 | Public Personnel Administration | 4-21 |
| Unit -2 | Position Classification, Remuneration And Recruitment | 22-43 |
| Unit -3 | Promotion And Carrer Development Programmes<br>Conduct And Working Rules, Employee's Association | 44-57 |
| Unit -4 | Conduct And Working Rules, Employee's Association | 58-73 |
| Unit -5 | Evolution And Contents Of Budget In Public Financial Administration | 74-94 |
| Unit -6 | Budget | 95-112 |
| Unit -7 | Ministry Of Finance | 113-124 |
| Unit -8 | Audit And Accounts | 125-142 |
| Unit -9 | Administrative Reforms | 143-163 |
| Unit -10 | Recent Developments In Personnel And Financial Administration | 164-229 |


## Lesson Complied by


The Department of
Political Science,

# UNIT: 1

# PUBLIC PERSONNEL ADMINISTRATION

## Introduction

Public Personnel Administration is an important area in the study of Public Administration. It is called as Personnel Management, Man power Management, Labour management, etc. The study of personnel administration became popular from 1930s. Kautilya recognizes that the personnel who an the organization is as important as the organizations themselves. Though there is little mention of the work "Recruitment". He prescribed qualifications for each post which goes to prove that. certain basic qualifications were necessary for the entry into the Services in the government. Bureaucracy refers to the desk Government or Government by officials. A no of scholars have contributed to the study of the bureaucracy. Let us see the characteristics and its features in detail.

## Objectives:

To achieve and maintain good human relationships with an Organization.

To ensure respect of human personality and the well-being of the individual.

To ensure maximum development of personnel

To know the qualification that are necessary for the ancient Civil Service.

To know the basic state civil services principles.

To appraise the values of Principles

To evaluate the Characteristics of bureaucracy.

To Study about various of bureaucracy.

To analyze the maladies of bureaucracy

**Structure:**

Meaning
Objectives of Personnel Administration
Nature of Public Personnel Administration
Scope of Public Personnel Administration
Promotion, Transfer and Termination
Training
Wages and other incentive
Service Activities
Collective Bargaining and Employees representation
Significance of public personnel Administration
Indian Civil Services
Staffing the Secretariat
Pay. Promotions and Transfer
Creation of Provincial Civil Service
Characteristics of bureaucracy
Hierarchical Organization
Technical Specialization
Political Neutrality
Types of bureaucracy
Maladies of bureaucracy
Safeguards of Bureaucracy
Decentralization of authority
Effective political control by the minter sand Legislators
Effective personnel Management
Flexible Organization
Effective Participation by Non-Officials
A Continuous Internal Review by means of Results and objectives
Conclusion
Summary
Books for further Reading
Answer for CYP Questions
Key words
Model Question

**1.1 Introduction**

Personnel Administration is an important area in the study of Public Administration. It is called by different names such as Personnel Management, Manpower Management, Labour Management, Labour Relations, Industrial Relations, Employees Relations, Human Resource Management, etc. The study of Personnel Administration became popular from 1930s. Let us discuss in this lesson the meaning, nature and scope of Public Personnel Administration.

**1.2 Meaning**

Personnel Administrations is concerned with the proper use of human resources in an organization. It focuses on such areas like recruitment, training, promotion, transfer, conduct, discipline, morale, motivation, retirement and retirement benefits, etc.

O. Glenn Stahl, sys that Personnel Administration is an attitude compounded of understanding both the forces which shape manpower needs, supply and problems and at the same time the importance of human will and personality.

> **Check your Progress Question**
> 1. Discuss the meaning, nature and importance of public Personnel Administration.

According to S.L. Goel. "Personnel Administration is that branches of Public Administration which can help an organization in the management of personnel resources with the use of well thought out principles, practices and rationalized techniques in selecting, retaining and developing personnel for the fulfillment of organizational objectives systematically and scientifically. It is the art and science of planning, organizing, implementing and evaluating the personnel resources in any organization to ensure their best use for the achievement of the objectives, goals and targets of an organizations".

According to Edwin. B. Flippo, "the personnel function is concerned with the procurement, development, compensation, integration and maintenance of personnel of an organization for the purpose of contributing towards the accomplishment of the organization's major goals and objectives. Therefore , Personnel Management is planning, organizing, directing and controlling of the performance of those operating functions".

According to Paul Pigours and Charles A. Myers, "Personnel Administration is a line responsibility and a staff function. It is basic management in all organizations. Personnel specialists help the line managers in providing advice, counsel, service and various types of contracts to secure uniform administration of personnel policies designed to achieve organizational objectives".

An analysis of the above definitions shows that Public Personnel Administration is concerned with the following,

1. Systematic recruitment and maintenance of the labour force,
2. Employees compensation,
3. Job analysis and job description,
4. Training of the employees,
5. Keeping personnel records and
6. Personal welfare.

In short, Public Personnel Administration is concerned with the entire human aspects of management.

**3 Objects of Personnel Administration**

R.K. Chopra, in his book, "Management of Human Resource" has mentioned the specific objectives of Personnel Administration. They are:

1. To achieve and maintain good human relationships within an organization.
2. To enable each person to make his maximum personal contribution to the effective working of the organization;
3. To ensure respect for human personality and the well-being of the individual.
4. To ensure maximum development of personnel; and
5. To ensure satisfaction of various needs of individuals for achieving their maximum contribution towards organizational goals.

## 1.4 Nature of Public Personnel Administration

The important features of Public Personnel Administration are:

1. It is concerned with human element in an organization. It deals with people at work. It relates to the basic function of management of getting better results with the co-operation of the people.

2. It is an integral part of management. Every manager whatever his job or level has to deal with the people, has to get maximum out of them and has to win their cooperation in getting the task done. Therefore, he must posses human relation skills.

3. Personnel Management is the responsibility of the management. This responsibility cannot be completely left to the Personnel Agency created within the organization because that agency performs only operative functions like recruitment, training, development, etc.

4. Personal Management is a pervasive function. It is inherent in all enterprises. It is a basic management function performed at all levels, and in all areas of management such as production, management, financial managements, etc.

5. It is a continuous function, which every manager has to perform. It cannot be practiced only one hour each day or one day week. Personnel Management requires a constant alertness and awareness of human relation and their importance in every day operations.

## 1.5 Scope of Public Personnel Administration

The subject matter, with which Public Personnel Administration concerns, forms the scope of Public Personnel Administration. W.R. Spiegel has identified six categories of functions as the scope of Public Personnel Administration. They are:

1. Employment.
2. Promotion, Transfer and Termination.
3. Training.

4. Wages and other incentives,
5. Service activities and
6. Collective bargaining and employees' representation.

**Employment**

Employment is an important function of a Personnel Department. It should cultivate and maintain adequate source of labour supply. It should get recommendation regarding job requirements and prevailing wage rates. It should recruit suitable persons for particular positions through the effective use of application forms, tests, physical examination., interviews and checking references and records. It should also maintain the records of prospective employees, present employees and former employees. It should introduce new policies to the new employees suited to modern requirements.

**1.6 Promotion, Transfer and Termination**

There should be suitable opportunities for promotion in the governmental organizations. The Personnel Department should also regulate the transfers of the employees by taking into consideration of the organization and the employees. It should lay down the policies regarding termination. When it doesn't follow the rules framed by the governmental organization in termination, it should also maintain proper records for the cause of termination.

**1.7 Training**

The employees should be provided with training. The Personnel Department should formulate necessary policies to conduct training programmes to the employees working in the reorganization. It should also supervise certain aspects of the training programmes.

**1.8 Wages and Other Incentives**

The Government employees should be provided with good salaries and incentives. The Personnel Department is responsible to formulate the wage plans of the employees. The employees should participate in the formulation of policies governing payment of salaries, pension plans, profit sharing programmes, mutual saving programmes, insurance plans, hospitalization, insurance loans to employees as advances on wages and the sale of the product of the organization to the employees.

**1.9 Service Activities**

The Personnel Administration is concerned with the service activities in an organization. It should look after and supervise the restaurant and recreation clubs situated in the organization. Sometimes, the staff members, might have some problems. The problems should be solved through counseling. The Personnel Administration should also look into the publication of magazine. Which contain organizational news. It should also engage in activities to improve the morale of the Government employees.

**1.10 Collective Bargaining and Employee Representation**

The employees used to have lot of grievances. These grievances of the employees should be properly handled. In handling grievances, the Personnel Department should play a major role. It should make arrangements to conduct Negotiations with the unions. It should bring about cooperation between the employees and the authorities.

Personnel Administration has a major role to promote the optimum utilization of the human resources available in an organization through proper recruitment, training, job evaluation, wages and other incentives, service activities, collective bargaining and employees representation.

**1.11 Significance of Public Personnel Administration**

The importance of Public Personnel Administration has increased in recent times due to several reasons like rapid advancement in requiring continuous development in human resources, large size of modem organization in the age of liberalization and range need of man power, high wage bills requiring optimum use of man power and recognition of human aspects of organization.

**1.12 Indian Civil Service:**

The most important legacy of the British rule in India was the creation of the Indian Civil Service. It represented the visible presence of the British in India and it was through its expanded network dig authority was wielded. The members of the ICS constituted the essence of British power in India and, without them, one would not be able to speak of a British empire in India. The twofold division of the covenanted and un covenanted services was retained by

the Atchison Commission (1886-87) and, in 1892, the two services were christened as the Indian Civil Service and the Provincial Civil Service.

The idea of merit-based civil service germinated on the Indian soil for the first time with the submission of the Macaulay Report in 1854. The place of a successful candidate in the order of merit in the competitive examination determined the province to which he would be allotted. During 1858-1919, recruitment to the Indian Civil Service was made by open competitive examinations that were held in London, Both Englishmen and Indians could compete in these examinations. Since the civil service constituted the only permanent official element in India, the British government insisted that it be a service of men endowed with the best intellectual traditions ideas and sentiments. Macaulay's ideas regarding recruitment lent support to the power elite theory of bureaucracy being the ruling class.

The idea of a specific age limit for taking the examination also evolved in 1854. As regards the prescription of the limit, it underwent changes from time to time, but generally it moved between 19 and 23 years. The competitive examination aimed at testing the proficiency of the student in certain subjects like English language, European literature. Mathematics, Sanskrit, Arabic, Moral Science, Philosophy, Logic, Natural Sciences etc.

By 1920, there were a total of five methods of entry into the higher civil service.

1. By open competitive examinations in London;
2. Separate competitive examinations in India;
3. Nomination in India to satisfy provincial and communal representation.. (This was a departure from the strict Weberian canon of recruitment by merit.);
4. Promotion from the Provincial Civil Service. The Islington Commission had suggested that members of the Provincial Civil Service be promoted to the Indian Civil Service in the sense that they could take rank with the civil service officers though not entitled to admission in the civil service in self-they were to be eligible for all posts in the civil service cadre on their merits;

5. Appointments from the bar: one-fourth of the posts, out of the tota posts reserved for the Indian Civil Service, were to be filled from the bar. Generally, posts of the district and sessions judge were filled by this method. Another important contribution of the British rule was the idea that the competitive examinations be conducted by an independent agency. Accordingly, the Federal Public Service Commission was created in 1926, and entrusted with the task of recruiting civil servants.

Another substantial contribution of the British was institutionalizing a training system. Efforts which began in 1880, with the setting up of the Fort William College at Calcutta, continued with several modifications and innovations till the end of the British rule in India. The idea was to train the personnel not only in the service of the Empire but in the service of the people as well. I will suffice to say that training in Indian languages and law was stressed substantially. Languages were given importance in order to bring the officials a little closer to the common people. Local laws were emphasized since their knowledge helped make the civil servants more competent.

**1.13 Staffing the Secretariat**

The idea of a central pool for drawing manpower is evidence of the practical genius of the British. Before 1920, each individual department recruited its own staff independently. In 1920, on the basis of the recommendations of the Secretariat Procedure Committee e (1919), the Government of India made upper division clerks of the secretariat part of an Imperial Secretariat Service and appointed a Central Staff Selection Board to supervise the recruitment process. The board consisted of three persons- an independent chairman and two members to be nominated one each by the Home and Education departments.

Recruitment to the upper division of the secretariat was made through direct appointments made on the basis of a qualifying examination and interview. Appointments to the Imperial Secretariat Service were also made through promotion of the lower division personnel. For recruitment to the

lower division of the secretariat the Staff Selection Board alone could determine the necessary qualifications. The functions of the board were taken up by the Public Service Commission in 1926. in 1937, the Maxwell Committee recommended that the ministerial staff should be divided into two main grades, namely, assistants and clerks, the former being able to note on files and to deal with paper work, while the latter could deal with routine work.

The staffing pattern of the Central Secretariat underwent a change as a result of the suggestions made by the Tottenham Committee (1945-46). Later, in 11950, the old Imperial Secretariat Service was replaced by the Central Secretariat Service.

Some features of the secretariat system were quite discernible: heavy reliance on precedents, incapacity of the lower grades of officials to share responsibility and the practice of excessive record-keeping and nothing. The legacy continues even today.

**1.14 Pay, Promotions and Transfers**

A well developed pay-structure for civil servants was also devised by the British. In 1918, the posts were divided into 'superior' and 'inferior' categories. A superior post was one carrying pay in excess of Rs.1,000 a month. However, even an incumbent of an inferior post could gent an 'excess' from the ninth year of this service. The total number of the superior and inferior Indian Civil Service posts under the Government of India did not exceed 84 in 1918. The highest pay was that of the Secretary of each department at Rs. 4,000 per month.

The system of promotion also brought about an onslaught on the tradition bound Indian society. In India, a person born into a low caste had to remain low and die as such. The element of promotion, on well-planned lines, developed by the British provided an element of social mobility. The conditions of service provided for promotional opportunities according to seniority, conduct and quality of performance. Even as early as 1834, the

system of annual returns existed wherein the merit and conduct of the subordinate officers were graded by the superior officers. According to a resolution of the Home Department dated 21 April, 1892, the officers of the Provincial Civil .Service could be promoted to certain listed posts in the cadre of the Indian Civil Service. However, there were a few peculiarities involved. On promotion, an officer could only take the rank but was not admitted to the membership of that cadre. Appointments to these listed posts were, however, few and far between and, officers promoted to them were not eligible for further promotion to a higher post.

Spangenberg points out a defect in the transfer policy of the government. The frequency of transfers sapped the vitality of the British administration. It acted to the detriment of district administration, particularly because it nullified the advantage of oriental loyalty. It was not uncommon to find three to four sub divisional officers changing in a year. He further says: Rapidity of transfers seems retrospectively and ironically to have facilitated the myth of imperial effectiveness. As long as men moved rapidly from one district to another, there was less chance of their becoming disillusioned with the inability of the government to understand, to deal effectively with the complex problems in any one local area. The frenzy of transfers had the effect of helping to hide the fragility of the empire.

He further links the issue of leave to what he calls the mobility syndrome. Officers could accumulate their privilege leave of one month up to three months. Ease and speed of travel made it possible for covenanted servants to take advantage of this provision in order to enjoy a vacation in England. For the month of July 1900, it was discovered that 38 out of 59 civilians on privilege leave planned to be absent for full three months. Spangenberg remarks: Indeed the mobility syndrome was another symptom of the weakening grip of the British Raj, demonstrative of disenchantment with the empire among men who constantly lamented their exile in India and who found the more advanced means of transportation to be a tempting and irresistible means of escape. The type of young men recruited for service in India had grown somewhat weary of the empire. Promotions,

furloughs and salaries were practically the only incentives to keep them engaged in the imperial enterprise.

## 1.15 Creation of a Provincial Civil Service

As already mentioned, on the recommendations of the Aitcheson Commission in 1887, the covenanted civil service was named as the Indian Civil Service and the uncovenanted civil service was styled as the Provincial Civil Service, designated after the name of the particular province to which it belonged. The Provincial Civil Serviced was to be recruited separately in each province of India and hold the higher appointments of the existing uncovenanted service. The lowest ranks of the uncovenanted service were constituted into a separate subordinate service. Later on, each province made its own rules regarding the recruitment of the Provincial Civil Service, subject to the control of the Government of India. Their salaries ranged from Rs. 250 to Rs. 800 per month.

Educational qualifications were indispensable for entry to the Provincial Civil Service but the government included the element of reservation to secure due representation of different classes of the community in the public service. This principle synthesized competition with nomination to ensure efficiency with social justice.

On the basis of the Aitcheson Commission's recommendations, certain posts were transferred to the Provincial civil Service. But, the government while accepting the proposal, stipulated that promotion to higher offices of the Indian Civil Service from the Provincial Civil Service must be by special selection and not on grounds of seniority alone. Certain rules were framed in this regard in 1892. The first and paramount condition was "absolute and proved fitness" tested in the course of an officiating charge for short periods arranged by local governments and administrators themselves. Secondly, it laid down that the maximum admission which might be made available for promotion to listed posts was to be one-sixth of the appointments in the cadre of the Indian Civil Service. The gradual transfer of superior posts to the Provincial Civil Service could be the only means to secure their even

and equitable distribution, for, in view of the existing imbalance in the availability of educational conditions, a full competitive system at the all-India level would have deprived most provinces of their due share in public employment. Regional imbalances in educational capabilities led the government to think that competitive examination would not work. Hence, in most of the states, holders of a university degree were found to be capable enough to hold posts in the Provincial Civil Service and the rest of the posts were filled by promotions from the subordinate service. For instance, out of 6.1 per cent of the annual recruitments in Madras, as much as 5.5 per cent was by promotions.

### 1.16 Characteristics of Bureaucracy

The important characteristics of bureaucracy area the following:

1. Hierarchical organization,
2. Technical specialization and
3. Political neutrality

### 1.16 Hierarchical Organization

Modern organizations employ thousands of individuals. The authority in an organization is vested usually in one individual. The person vested with the authority will not be able to effectively control over the entire thousand individuals directly and to achieve the purpose of the organization. Therefore, every modern organization is created with different levels on the basis of the number of subordinates a supervisor can effectively supervise. Thus, posts at different levels are united in a single chain of command. Every employee is responsible to his immediate supervisor. Communication in the hierarchical organization passes through proper channel. Without the principle of hierarchy an organization cannot be created. An organization created on the principle of hierarchy is considered as bureaucratic organization.

**Check progress Question**
**2. Bring out the historical development** of Public Personnel Administration

### 1.17 Technical Specialization

Functions of modern states have become much more complex and specialized. These functions cannot be carried out without technical specialization. Therefore, the civil servants have to be recruited on the basis of technical qualification. Thus, technical specialization has become an important characteristic of bureaucracy.

**1.18 Political Neutrality**

Another feature of bureaucracy is political neutrality. The Government servants are the servants of the people. They are expected to serve the people without showing any favour to any political party. Therefore, the Government servants are allowed only the right to vote. The other political rights such as right to contest in the election, rights to canvass, right to hold an office in a political party etc., are not allowed to the Government servants. Policy decisions are taken by the Ministers. The Government servants give their advice in policy making.

Generally bureaucracy was associated with governmental organizations Even today bureaucracy is related to governmental organizations. Max Weber says that bureaucracy can be referred to any big organizations, which have the characteristics of bureaucracy, about which we have explained above.

**1.19 Type of Bureaucracy**

**Check your progress Question**
3. Define various types of Bureaucracy

F.M. Marx has classified bureaucracy into four kinds. They are:

1. Guardian bureaucracy,
2. Caste bureaucracy,
3. Patronage bureaucracy and\
4. Merit bureaucracy.

**1.20 Maladies of Bureaucracy**

The scholars of bureaucracy hav e identified certain maladies of bureaucracy. They are:

1. Circumlocution.
2. Redtapism.
3. Formalism.
4. Unresponsiveness
5. Despotism and
6. Empire building.

## 1.21 Safeguards of Bureaucracy

As we have already seen, no modern Government organization can be created without the characteristic of bureaucracy. According to Max Weber more efficiency and productivity could be derived if an organization is created on the characteristics of bureaucracy. According to Robert K. Merton the bureaucratic organization can bring about more efficiency and productivity if the maladies of bureaucracy are removed.

**Safeguards of Bureaucracy**

In order to remove the maladies of bureaucracy, scholars of Public Administration have identified certain safeguards of bureaucracy. They are:

1. Decentrakuzation of authority,
2. Effective political control by the Ministers and the legislature,
3. Effective personnel management,
4. Flexible organization,
5. Effective participation by the non officials and
6. A continuous internal review by means of results and objectives.

## 1.22 Decentralization of Authority

Instead of concentration of authority at the center, the authority should be decentralized among the executives at different levels so that the work will be carried out without much delay.

## 1.23 Effective Political Control by the Ministers and the Legislature

The Ministers should visit the Government officers under their control and take actions on the officials who are not punctual to the work properly.

The legislature on the basis of the recommendations of the Committees should take stringent actions against the officials who have committed mistakes. The members of the Parliament during the question hour, debates, discussions etc. should question the Ministers by criticism of the behavior of the officials. This will set right the defects of bureaucracy.

### 1.24 Effective Personnel Management

Though proper supervision and control by the executives at different levels over the subordinates the defects of bureaucracy can be rectified.

### 1.25 Flexible Organization

The officials without bothering about the rules and regulations should take actions on issues, which require immediate attention and urgency. For example. If a person is seriously wounded and he is brought to the hospital, the doctors instead of bothering about the formalities should attend to the patients immediately.

### 1.26 Effective Participation by Non Officials

Here the non-officials mean the peoples' representatives. It is the responsibility of the peoples' representatives to visit their constituencies, hear the problems of the people and try to set right them. If the Government officials do not perform their duties and thereby if people are affected, the peoples' representatives should visit the Government offices and try to set right the problems of the public. The effective participation by the non-officials will safeguard the interest of the people.

### 1.27 A Continuous Internal Review by Means of Result and Objectives

The defect of bureaucracy can be rectified through continuous internal review by means of results and objectives. Each official in the Government is entrusted with certain duties and responsibilities. The Government through the performance appraisal of the Government servants could review the duties and responsibilities and enable them to perform their duties more efficiently.

We cannot think of an organization without the characteristics of bureaucracy. All big organizations are created on the various characteristics of bureaucracy. The bureaucratic organizations are found in different kinds. The merit bureaucracy is considered to be the best bureaucracy as it

provides opportunities for all the eligible persons to enter into the Government jobs. Unfortunately there are certain maladies of bureaucracy. These maladies of bureaucracy are unable to meek the Government officials to perform their jobs well. The scholars of Public Administration have provided certain safeguards to rectify the maladies of bureaucracy.

According to Max Weber the efficiency and productivity in an organization can be brought about if the organization is created on the various characteristics of bureaucracy. Thus, bureaucracy forms an area in the study of Public Personnel Administration.

**1.28 Conclusion**

A proper compensation plan enables the Government servants to remain in service and to work efficiently. Though the Government of India follows certain principles and methods to determine the compensation plan, since the positions are not classified on scientific line, equal pay for equal work has not been ensured to the Government servants. This defect can be rectified only through proper position classification.

**4. Summary**

In this chapter we have discussed in detail the area of Public administration with specialization in Personnel administration, our tradition administrative system, the necessity of the structured bureaucracy is an organization and so on. And also we have done a comparative study among the importance and basic features of various bureaucracy Systems.

**5. Keywords**

(a) Branch of Public Administration
- (ii) Line Responsibility and staff function
- (iii) Human aspects of management
- (iv) Prajna
- (v) Vakya Sakthi
- (vi) Chaplains
- (vii) Absolute and Proved fitness
- (viii) Circumlocution
- (ix) Redtape
- (x) Despotism
- (xi) Emptive Building

## 6. Answer for Check your Progress Question

For Question No.1 – Refer Section No. 1.1
Question No.2 – Refer Section No. 1.16
Question No.3– Refer Section No. 1.19

## 7. Books for Further Reading


1. Hand books Public Personnel administration Rabin Rabin , Jack Rabin Publishers Crc Press
2. Speeches and Writings of G.V. Mavalankar, Speech to Public Accounts Committee. p.97.
3. Article 148(3) and 149 of the Indian Constitution.
4. Administrative Reforms Commission: Report on Finance, Accounts and Audit.
5. Asok Chanda, op.cit., p.249.


## 8. Model Questions:

1. Discuss the meaning, nature and importance of public Personnel Administration.
2. Bring out the historical development of Public Personnel Administration.
3. Define Various type of Bureaucracy.

## UNIT : 2

# POSITION CLASSIFICATION, REMUNERATION AND RECRUITMENT

**Introduction:**

Modern government employs thousands of individuals for th performance of manifold functions. So the government itself decides anc recruits employees through various process for various posts. The method o fixing of pay scale is called Compensation plan. A proper compensation plai replaces favoritism by merit and impartiality. Recruitment is a process througl which suitable persons are selected for particular position in the government.

**Objectives:**

To clarity the method of position classification with other systerr of recruitment.

To evaluate the effectiveness of the position classification.

To know the efficiency of the State employees.

To find out the methods of Compensation plan.

To trace out the historical growth of Compensation system

To evaluate the maladies of Indian Compensation plan.

To know the methods of Recruitment and Selection

To appraise and to evaluate the Scheme of recruitment methods.

**Structure:**

What is position classifications.

Features

Merits and Defects

Position classification in India

Evaluation

Principles of Compensation Plan

Three major requirement of a sound Compensation Plan

Inclusiveness

Comprehensibility

Adequacy

Market value Principle

Fair Comparison Principle

Internal Relativities Principle

Capacity to pay Principle

Equal pay for Equal work

Minimum and Maximum Salary

Percapita income and pay structure

Compensating the position and not the individual

Fringe Benefits

Increment

Dearness Allowances

Transport Allowance

Casual Leave

Medical Leave

Earned Leave

Study Leave

Methods of Fixing Salaries

The Payment of Wages Act 1938

The Minimum Wages Act 1948

The Industrial Dispute Act 1947

The wage Board

Meaning of Recruitment

Recruitment and Selection

Importance of Recruitment

Recruitment in earlier days.

Merit System

Problems of Recruitment

Location of Recruiting authority

Methods of Recruitment

Qualifications of the Employees

Age

Citizenship

Set

Special Qualification

Education

Experience

Technical Qualification
Methods of Determining Qualification
Personal judgment
Certificates of character and Conduct
Records of previous experience
Examination
Administrative machinery
Recruitment of Officer of Group I, II
General Knowledge
Optional Subject
Summary
Books for further Reading
Answer for CYP Questions
Key words
Model Questions.

## 2.1 Introduction:

Promotion means advancement to a position of leadership. It is a prune motivating factor in the civil service. It has a direct bearing on the individuals and group performance. A sound policy of promotion conducive to the growth of a healthy atmosphere of competition, confidence and efficiency is appreciated. Its absence is marked by the state of complacency, frustration and low morale. In the interest of achieving efficiency, it is essential to make proper use of promotion to activism and energize the civil servants. Promotion rules therefore, must be just and equitable and conducive to morale and efficiency in the civil service. There should be no doubt in any quarter that promotion can take place on account of favoritism, nepotism and pressures exerted by influential quarters. In short, promotion rule should not only be just and fair but also appear to be so.

## 2.2 What is Position Classification?

It is a grouping of position on the basis of similarities of duties and qualification requirements. Position classification means the allocation of positions to classes on the basis of duties performed. Classification is of position and not of person holding it For the purpose of recruitment and

other personal matters, all the positions in an organization, which involve closely similar duties and responsibilities, are grouped together. Thus in an organization all the clerks are grouped under clerical cadre, the typists under typist cadre, and the administrative officials – under administrative cadre.

### 2.3 Features

1. All positions involving almost the same character of employment are grouped into a position.
2. A title suggestive for each class of position on the basis duties performed is given,
3. The allocation of position is classified on the basis of class definition and duties attached and
4. A written statement of qualification which an individual must posses to perform his duties is given.

### 2.4 Merits

1. Thousands of posts are grouped into a dozen classes. It5 Simplifies the problems of Personnel Administration.
2. The requisite qualification for each post is presented. It helps the recruiting agencies to prepare the eligible list.
3. Position classification helps the employees to know the lines of promotion.
4. It leads to uniformity of treatment in promotion.
5. It leads to spirit of cooperation.
6. And it facilitates the work of budget making

**CYP Question**
1. Write an essay on the development of position classification system in India

### 2.5 Position Classification in India

The earliest Position Classification in India was done by the East India Company. It classified the positions into:

1. Covenanted and
2. Uncovenanted services.

**2.6 Evaluation**

In Indian the Positions are classified on Scientific principles. For example, High School Teachers with B.Ed., qualification, Assistants in the State Services, Sub Inspectors in the Police Department are grouped in the same cadre. These officer differ in their duties and responsibilities. Positions should be classified on the basis of the similarities of duties and qualification requirements so that it would be based on scientific. The Government should take steps to classify the position on scientific principles that is, on the basis of duties and responsibilities and qualification requirements.

Position classification promotes class-consciousness among the 'officials. The officials at different levels try to build an empire among themselves and fail to understand the problems of the subordinate. This defect could be removed if the positions are classified on scientific principles.

Position Classification according to scholars of Public Administration in India is not comprehensive enough to include different positions in the fivefold classifications. The Position Classification in India should be comprehensive enough to include the different positions in India.

**2.7 Principle of Compensation Plan**

The compensation plan of the Government service is decided on the basis of certain principles. They are:

1. Three major requirements of a sound compensation plan,
2. Market value principle,
3. Fair comparison principle,
4. Internal relativities principles.
5. Principle of State as a modem employer,
6. Capacity of pay principle,
7. Equal pay to equal work,
8. Minimum and maximum salary,
9. Per capita income and the pay structure and
10. Compensating the position and not the individual.

**CYP Question**
2. Evaluate the efficiency of Compensation plan

## 2.8 Three Major Requirements of a Sound Compensation Plan

The Fifth Pay Commission (1997) examined the compensation plan and identified three major requirements for a sound compensation plan. They are:

1. Inclusiveness,
2. Comprehensibility and
3. Adequacy.

## 2.9 Inclusiveness

Inclusiveness refers to the broad patterns of pay scale that has been adopted for the Government servants should be uniformly everywhere in comparable areas.

## 2.10 Comprehensibility

Comprehensibility refers to a sound system of compensation plan, which give a total and true picture of emoluments of a post rather than being fragmented into a number of allowances.

## 2.11 Adequacy

Adequacy refers to the feeling of civil servants that their emoluments are adequate with respect to their skills, educational qualifications, experience and duties and responsibilities and their emoluments are comparable to their peers outside.

## 2.12 Market value Principle

According to this principle the compensation plan should be based on supply and demand considerations. This principle is also known as recruitment-retention principle. It means the Government should be able to attract suitable persons for suitable positions and should be able to retain them

## 2.13 Fair Comparison Principle

According to this principle the compensation plan of the Government servants should be affair comparison with the current remuneration of outside staff employed on broadly comparable work taking into account of differences in other condition of service.

## 2.14 Internal Relativities Principles

The compensation plan of the Government service should take into consideration of internal relativities-vertical and horizontal. The Scale of the supervisors and their subordinate should have panty with allied jobs within the service itself.

## 2.15 Capacity to Pay Principle

The International Labour Organization has laid down that the capacity to pay of the employer should be essential ingredient while fixing up the pay scale. Capacity of the Government to pay its employees should be relevant if not dominant factor.

## 2.16 Equal Pay for Equal Work

According to Article 39 of the Indian Constitution there should be equal pay for equal work for both men and women. Therefore, the compensation plan of the Government servants should ensure equal pay for equal work.

## 2.17 Minimum and Maximum Salary

There should be graded salary instead of fixed salary to the Government servants, deciding the minimum and maximum salary. It is also known as step plan. This plan enable the Government servants to have administrative promotion on the basis of a meritorious work carried out by them and on the basis of the certificate provided by the higher authorities at, the end of every year. This principle enable the employees to get more salary on the basis of service provided by them. It acts as an incentive for good work.

## 2.18 Per Capital Income and Pay Structure

Per capita income of a State should have a direct linkage in fixing up the pay scale of the Government servants.

### 2.19 Compensating the position and not the individual

According to this principle the salaries of the Government servants should be fixed on the basis of the position they hold and not as individual. This would enable the Government to fix up equal pay for equal work.

### 2.20 Fringe Benefits

A compensation plan should not only include pay scale but also change benefits such as:

1. Increment,
2. Dearness allowance,
3. Transport allowance,
4. Traveling allowance,
5. Casual allowance,
6. Medical allowance,
7. Earned leave and
8. Study leave.

### 2.21 Increment

On the basis of the satisfactory service provided by the government servants. they arfe. provided with an increment at the end of every year.

### 2.22 Dearness Allowance

Dearness allowance is given to Government Employees to meet the increased cost of living. This allowance is increase according to the price index level. This is calculated on the basis of the basic pay.

### 2.23 Transport Allowance

Transport allowance is given to Government servant for journeys made beyond 5 kms limit at the rate on the basis their salaries.

### 2.24 Casual Leave

The Government servants are allowed to avail 12 days casual leave in a year in order to avail it in case of urgency.

**2.25 Medical Leave**

The Government servants are allowed medical leave when they are unable to attend the serviced due to physical or mental incapability.

**2.26 Earned Leave**

The Government servants are also provided with earned leave when they work in the Government service without availing any leave. They are also allowed to surrender the earned leave and to get the salary for surrendering the earned leave. This facility has been extended to make the employees to work in the Government service without taking leave.

**2.27 Study Leave**

The Government servants are allowed to make use of earned to pursue their further education. Since further studies enable the Government servants to keep them fit for the higher positions, the Government should come forward to provide educational leave without affecting the earned leave and other leave facilities extended to them.

**2.28 Methods of Fixing up Salaries in India**

The salaries of Government servants are fixed by states or by legislature laying down the plan in broad outline and executives to fill the details for fixing up the salary. The salary of the Government servants is fixed through collective bargaining in the private enterprises. The local boards fix the salary public cooperation and public utility services.

The Government of India has adopted various methods to regulate the salaries of the government servants in India. They are:

1. Prescribing minimum rates of wages.
2. Regulation of payment of wages.
3. Compulsory conciliation and arbitration of wage disputes.
4. Setting up wage boards.

**2.29 The Payment of Wages Act 1938**

The Payment of Wages Act was enacted in 1938 to ensure that salaries for the Government servants were paid properly and to avoid all kinds of

malpractices like non-payment, short payment or irregular payment to the Government employees.

**2.30 The Minimum Wage Act 1948**

The Minimum Wage Act was enacted in 1948 to avoid exploitation of workers by underpaying them for their efforts took into account the bare minimum needed for a common man. Penalty for violation also is laid down by this Act.

**2.31 The Industrial Disputes Act 1947**

The Industrial Dispute Act was enacted in 1947 for the purpose of prevention and settlement of industrial disputes. This Act empowered the Government to constitute Industrial Tribunals to refer the wage disputes.

**2.32 The Wage Boards**

The Government of India appoints the Wage Boards on ad hoc basis on the basis of the demands made by the Government employees. The Wage Boards analyze the productivity of labour, need-based minimum wages, prevailing rates of wages, level of national income arid recommends the wage fixation of the Government servants.

In India the compensation plan is also determined on the basis of recommendations of the Pay Commissions appointed by the Government. The Pay Commission examine the existing structure of emoluments and conditions of service, various kinds of allowances, incentives and other benefits, including the retirement benefits while revising the pay structure. The general cost of living and trend is also taken into consideration. The pay Commissions also hear views and demands of the Employee Unions. The recommendations are submitted to the Government for consideration.

**2.33 Meaning of Recruitment**

Recruitment is a process through which suitable persons are selected for particular positions in the Government.

## 2.34 Recruitment and Selection

The term recruitment and selection are used in same meaning. But they have different meanings. Recruitment is a process through which selection is made. Thus, recruitment is a mean and selection is the end.,

**CYP Question**
**3. Differentiate Recruitment and Selection.**

## 2.35 Importance of Recruitment

Recruitment is an important issue in Public Personnel Administration. The efficiency of Public Administration very much depends upon the personnel who serve in the Government. If they are recruited properly, there would be more efficiency in Public Administration. If they are not recruited properly there would be inefficiency in Public Administration. Therefore, recruitment is considered an important issue in Public Personnel Administration.

## 2.36 Recruitment in Earlier Days

Three types of recruitment were followed in earlier days. They were:

1. The sale of office system,
2. The patronage system and
3. The spoils system.

## 2.37 Merit System

Under this system appointment and conditions of service of the Government employees are wholly determined by the merit. Merit includes technical and educational qualification. Under this system recruitment is made through open competitive examination. Merit is the only basis for selection. There is equal opportunity for all citizens. Government servants remain neutral in politics. Promotion takes place on the basis of merit. There exists proper retirement system and retirement benefits to the Government Servants.

Since the merit system gives practical effect to the democratic principle of the equality of opportunity and equality of treatment for all, the merit system has been practiced in China since 186BC.

**2.38 Problems of Recruitment**

The scholars of Public Administration have identified five problems of recruitment.

They are:

1. Location of recruiting authority,
2. Methods of recruitment,
3. Qualification of the employees.
4. Methods of determining the qualification and
5. Administrative machinery that determines the qualification.

**2.39 Location of Recruiting Authority**

Whether to locate the recruiting authority in the people or in an autonomous body is the problem. If the authority to recruit the Government servants is vested with the people, them they have to be recruited through the process of election. When the Government servants are recruited through the process of election, efficient persons may not be recruited to the Government service. Favoritism and nepotism will enter in the process of recruitment The Government servants recruited through election will not be able to provide continuity to the Government service. Therefore, all the Government in the world have located the recruiting authority not in the people but in an autonomous body. If the Government servants are recruited through the autonomous body efficient persons may be recruited to the Government service.

**2.40 Methods of Recruitment**

Whether the Government servants should be recruited from within the Department or outside the Department is the problem. At one level the Government servants have to be recruited from outside the Department only At other levels, whether the Government servants should be recruited from within the Department or outside the Department is the problem. For example, in England there is recruitment from outside the Department only at Constable level in the Police Department All other positions are filled from within the Department In India there is recruitment from outside the Department not only at Constable level but also at Sub Inspector level and Assistant Superintendent of Police level. Now the problem is whether there should be recruitment from outside the Department at Constable level only or at different levels. The

recruitment from within the Department is called promotion. In promotion there are certain advantages. They are:

1. It brings experienced persons to higher positions whose working efficiency is well known.
2. The cost of recruitment through promotion is less. The Government has just to send circulars to the eligible persons for promotion to appear for a test. The also need not be given long term training to fit into the higher positions.
3. Recruitment from within the Department would rise the morale of the employees.
4. It serves as an incentive for the employees to work more efficiently. because this method provides enough opportunities for advancement to the employees.

There are certain disadvantages also in recruitment from within.
They are:

1. Recruitment from within the Department is against the democratic principle. It does not allow all the eligible persons to apply for higher positions from outside the Department.
1. Young and talented persons are denied entry to higher Positions.
2. The experienced persons who are promoted to higher Positions may not be able to adjust to the changes in the organization and the society.

They are:

1. Direct recruitment is in accordance with the democratic principle. It allows all eligible persons to apply for higher positions.
2. Young talented persons are able to have entry at higher positions
3. The young recruits at higher positions are easily able to adjust to the changes in the organization and the society.

There are certain disadvantages in direct recruitment-

They are:

1. Direct recruitment is very costly. Vacancies have to advertised in the newspapers, applications have to b e collected and scrutinized. Entrance

examination has to be held to them. After that main examination has to be held. They have to be called for oral interview. After direct recruitment they have to be provided with long-term training. Thus, the cost of direct recruitment is very high.

2. In direct recruitment the working efficiency of the employees cannot be determined. Thus, directly recruited employees at higher positions may not be highly talented and suitable persons.
3. In direct recruitment young persons may be able to get into higher positions. When experienced person are made to work under young officers, a telling of heart burning would develop among them.

Since there are advantages and disadvantages in both promotion and direct recruitment, all the Governments in the work have adopted both the systems of recruitment. But the proportion of direct recruitment to promotion differs from country to country. In developed countries nearby 80% of the employees are directly recruited and only 20% of the employees are promoted within the Department. In the developing countries like India above 50% the positions is filled through direct recruitment and other 50% through promotion.

### 2.41 Qualification of the Employees

The qualification of the employees required for entering into the Government service can be broadly classified into two kinds. They are

1. General qualification and
2. Special qualification

General qualifications required for the persons to enter into the Government service are

Age,

Citizenship,

Sex,

Marital status and

Residential qualification

**2.42 Age**

Age is an essential qualification for entering into the Government service. When young persons are recruited at lower levels, they would be eager to learn things and when they are promoted to higher positions after 15 to 20 years of service, they would be able to effectively supervise and control the employees working under them.

**2.43 Citizenship**

Citizenship is an essential general qualification for al the employees working in the Government service. In the Government service secrecy has to be maintained. The employees have to be loyal to the country. It is believed that the citizens of a country would maintain secrecy and loyal to the country. Therefore citizenship qualification for entering into the Government service has been made as an essential qualification in almost all the countries of the world.

**2.44 Sex**

Whether an employee should be a male or female is the problem. In India constitutionally there is no bar for both men and women to enter into the Government service.

In the same way martial status and residential qualification are not insisted for entering into the Government service in India.

**2.45 Special Qualification**

Scholars of Public Administration have identified three qualifications as a special qualification. They are

Education,
Experience and
Technical qualification

**2.46 Education**

For entering into the Government service the applicants should possess certain educational qualification. For example in India for entering into All India Services an applicant should be a graduate.

**2.47 Experience**

Experience is an essential special qualification for the employees to rise up to higher positions. For example, in India the Government employees become eligible for promotion after 3 to 8 years.

**2.48 Technical Qualification**

The modern Government carryout a large number of functions to promote the welfare of the people. Therefore, the services of the technical experts like agricultural scientists, horticulturists, veterinary doctors, engineers with different specialization have become necessary. Therefore, technical qualification as an essential qualification is insisted on to enter into the Government service.

**2.49 Methods of Determining Qualification**

Different methods are adopted to determine the qualification.

They are:

1. Personnel judgment of the appointing authority,
2. Certificates of character and conduct
3. Records of previous experience and Examinations

**2.50 Personal Judgment of the Appointing Authority**

One method of determining the qualification is on the basis of the personal judgment of the appointing authority. Under this system the person vested with authority, on his personal judgment would recruit the candidates for suitable positions.

**2.51 Certificates of Character and Conduct**

Another method of determining qualification is through the certificate of character and conduct. Under this system persons vested with authority to recruit the employees would select from the eligible candidates with suitable qualifications on the basis of conduct and character.

**2.52 Records of Previous Experience**

Another method of determining qualification is through the records of previous experience. Under this system higher position in an organization is filled from the candidates who have good records of previous experience. The records of previous experience of the employees are determined by the reference given by the employees and the testimonials produced by them from the officers under whom the employees worked.

**2.53 Examination**

The examination is an important method of determining the qualification. Under this system the employees are recruited on the basis of competitive examination is conducted by the Public Service Commission, that consists of preliminary examination, main examination and oral interview. It is proper under this topic to discuss separately on how the officers belonging to the All India Services and Central Services Class-I and Class-2 are recruited.

**2.54 Administrative Machinery that Determines the Qualification**

The administrative machinery that determines the qualification should be an independent body and could recruit the candidates purely on the basis of merit without any political interference. In India, power to recruit the Government employees is vested in the Union Public Service Commission and State Public Service Commissions. They are independent bodies and recruit the Government employees on the basis of merit without any political interference. Let us discuss in a separate lesson about the organization and functions of Public Service Commission.

**2.55 Recruitment of Officers Belonging to All India Services and Central Services Class I and Class 2**

The vacancies for the All India Services and central Services Class I and Class 2 are identified by the Central Government through the circulars sent to the Government Departments. Once the Government has identified the number of vacancies,. it asks the Union Public Service Commission advertises in the newspapers about the number of vacancies available in the All India Services

and Central Services Class I and Class 2 asking the suitable candidates to apply for the vacancies during the month of December. The Union Public Service Commission receives the applications, scrutinizes them and permits the suitable candidates to appear for the preliminary examination. The Union Public Service Commission conducts the preliminary examination during the month of June every year. The preliminary examination consists of two papers. They are

1. General Knowledge and
2. Optional subject.

**2.56 General Knowledge**

The General knowledge paper carries 150 marks. All question are of objective type. The question from different subjects such as Physics, Chemistry. Biology, Mathematics, History, Civics Geography, Economics and Current Events at 12$^{th}$ standard level are framed as objective type questions.

**2.57 Optional Subject**

Optional subject carries 300 marks. The Union Public Service Commission has listed about 25 subjects as optional subjects. The candidates have to select one of the optional subjects for the preliminary examination. Like general knowledge paper, all the questions would be of objective type. The questions framed in the optional subject are at Master Degree standard.

On the basis of marks secured by the candidates in general knowledge paper and optional subject, merit list is prepared. In proportion of 10 candidates for each vacancy, candidates are allowed to write the examination. For example, if there are 400 vacancies in proportion of 1:10, 4000 candidates who have secured more marks in the merit list are allowed to appear for the main examination.

The main examination consists of 9 papers. They are:

| | |
|---|---|
| Paper I | - English |
| Paper 2 | - Indian Language |
| Paper 3 | - Essay |
| Paper 4&5 | - General Studies |
| Paper 6&7 | - Optional Subject - I |
| Paper 8&9 | - Optional Subject - II |

**English**

English paper is a compulsory paper. It carries 300 marks. The candidates should pass the paper. The marks secured in this paper will not be taken into account in the preparation of the final merit list.

**Indian Language**

The Constitution of India has identified 18 languages as Indian languages. The candidates should get through the paper like the English paper and the marks scored will not be taken into account in the preparation of final merit list.

As it has been already mentioned, the candidates should have got through both the papers. If they have failed in any one of these papers, the other papers will not be taken up for evaluation.

**Essay**

The Union Public Service Commission to recommended possible changes in the Civil Services examination appointed the Satish Chandra Committee in 1988. This Committee recommended introducing essay paper carrying 200 marks from 1993. The candidates appearing for the civil service main examination are asked to write an essay in the paper. This paper was introduced to test the analytical capabilities of the candidates.

**General Studies**

In general studies there are two papers. Each paper carries 300 marks Like essay paper, papers on general studies are also compulsory to th candidates.

**Optional Subject 1 & 2**

Optional subjects 1 & 2 carry two papers each. Each paper carries 30 marks. The candidates appearing for civil service services examination shoul choose two optional subjects from among the subjects listed as optional subject by the Union Public Service Commission.

Option to write in any one of the Indian Languages except English Paper The Satish Chandra Committee has recommended that the candidates can write ıll the papers in any one of the Indian Languages recognized by the Indian Constitution except English paper. If the Candidates what to write all the papers in any one of the Indian Languages, they should write all the papers in one language except English. The candidates are not allowed to write few papers in English or Hindi & other papers in one of the languages recognized by 1e Union Public Service Commission.

On the basis of the marks secured in the Main Examination, the Union ıblic Service Commission prepares a merit list. In proportion of 2 candidates 1 vacancy, the candidates are owed to appear for the viva vocal amination.

The Kothari Committee appointed by the Union Public Service mmission to suggest suitable changes in the scheme examination of the All lia Services and the Central Services, commended that a viva voce ımination should be conducted per the main examination and the viva voce ımination should try 250 marks. The Satish Chandra Committee ommended only the introduction of essay paper as it has been already ntioned by also recommended to increase the marks for viva voce ımination from 250 to 300. The viva voce examination is conducted in the ion Public Service Commission Premises at New Delhi. The experts and the mbers of the Union Public Service Commission interview the candidates and ard marks. The viva voca examination is recorded in the video so that if the ıdidates can find fault with viva voce examination, the affected candidates ı appeal to the court and the video recording could be shown as evidence ore the Court. After the viva voce examination each candidate is asked to te a resume, that should consist of the question asked by the examiners and answers provided by the candidates. The total marks awarded by the miners are added with the marks secured in the resume to calculate the total ·ks secured in the viva voce.

On the basis of the total marks secured by the candidates in the main nination and viva vocal examination, a final merit list is prepared. The lidates are allocated to the different services on the basis of the total marks

secured, priority given to the services and reservation. The Union Public Service Commission after allocating the different positions to the candidates on the basis of final merit list, the list is handed over to the Government. The Heads of the Departments on behalf of the President of India appoints the candidates to the different positions on the basis of the recommendations made by the Union Public Service Commission.

**'L58 Summary:**

This chapter simply talks about the position classification system in out country. Position classification promotes class-Consciousness among the officials. A proper Compensation plan enables the government servants to remain in service and to work efficiently. And also we discerned about various methods of recruitment and selection and difference between them.

**2.59 Key Words**

(i) Classification of Position
(ii) Lines of Promotion
(iii) Shillington Commission
(iv) Sale of office
(v) Spoils system
(vi) Citizenship.

**2.61 Books for Further Reading**

1. Hand books Public Personnel administration Rabin Rabin , Jack Rabin Publishers Crc Press
2. Speeches and Writings of G.V. Mavalankar, Speech to Public Accounts Committee, p.97.
3. Article 148(3) and 149 of the Indian Constitution.
4. Administrative Reforms Commission: Report on Finance, Accounts and Audit.
5. Asok Chanda, op.cit., p.249.

## 2.62Answer for Check your Progress Question

For Question No.1– Refer Section No. 1.4
Question No.2 – Refer Section No. 1.6
Question No.3 – Refer Section No. 1.13

## 2.63 Model Questions

1. Write an essay on the development of position classification system in India.
2. Evaluate the efficiency of Compensation plan
3. Differentiate Recruitment and Selection.

# UNIT: 3

# PROMOTION AND CARRER DEVELOPMENT PROGRAMMES

## Introduction:

A sound policy of promotion conducive to the growth of a healthy atmosphere of competition. Confidence and efficiency is appreciated. The efficiency of on organization depends upon directly on how capable its personnel are and how they are motivated to work and the type of training they receive. In Indian organization trading and development activities have assumed high importance in recent years.

## Objectives:

To find out the features of a Sound promotional Policy system.

(a) To analyze the efficiency and adoptability of promotional policy

(b) To study the historical development of promotional system in India

(c) To find out the role of Training programmes in the organizational as well as employees development.

## Structure:

Meaning of Promotion

Kinds of Administrative promotion

Promotion and Transfer

Grounds of Transfer

Routine Transfer

Transfer for the training

Transfer to avoid Retrenchment

Transfer as punishment

Importance of promotion

Essentials of Promotion system

Departmental-Inter Departmental Promotion

Principles of Promotion

Personal Judgment

Promotional Examination

Efficiency rating

Promotion making authority

Promotion system in India

Criticism of Promotion System in India.

Meaning and Definition of Training

Role of Training

Need for training

Kinds of Training

Evaluation

Summary

Keywords

Books for further Reading

Answer for CYP Questions

Model Questions.

### 3.1 Introduction:

A sound policy of promotion conducive to the growth of a healthy atmosphere of competition. Confidence and efficiency is appreciated. The efficiency of on organization depends upon directly on how capable its personnel are and how they are motivated to work and the type of training they receive. In Indian organization trading and development activities have assumed high importance in recent years.

**CYP Question**
3. Define and Explain for Promotion Transfer and Advance ment

### 3.2 Meaning Of Promotion

According to L.D. White, "Promotion means an appointment from a given position to a more difficult type of work and greater responsibility, accompanied by change of title and usually an increase in pay". Promotion is distinguishec from advancement of administrative promotion. In administrative promotion

there is an increase in compensation. Therefore, promotion is confused with administrative promotion. But administrative promotion is different from promotion in as much as it does not entail and change is status, duties or responsibilities. It is merely advancement in emoluments, which is usually automatic.

### 3.3 Kinds of Administrative Promotion

Administrative promotion has been divided into three types depending on the length of the service in position and the efficiency of the employee. They are:

1. The automatic administrative promotion,
2. The conditional administrative promotion and
3. The semi automatic administrative promotion.

### 3.4 Promotion and Transfer

Promotion is also confused with transfer. It should distinguished from transfer. An employee is transferred from one place to another place in the same position. Whereas promotion upgrades him with heavier and greater responsibilities. Though, an employee may be transferred when he is promoted, it should be rightly called as transfer on promotion and not transfer.

### 3.5Grounds of Transfer

Transfer is not only effected on promotion but also on different grounds. They are:

1. On the request of the employee,
2. Routine transfer,
3. Transfer for training of the employee,
4. Transfer to avoid retrenchment and
5. Transfer as punishment

### 3.6 Routine Transfer

Under this system the organization do not prefer very long stay of officials at a particular station as they believe that transfer gives an employee a change of working condition, refreshes his mind and increases his efficiency.

### 3.7 Transfer for Training of the Employees

Under this system, transfer is effected to give all around training to the employees in the different aspects of the Department work by rotating the employees for equipping with different types of works in the Department.

### 3.8 Transfer to Avoid Retrenchment

Under this system, inter departmental transfers are resorted to avoid retrenchment of employees and to save the employees from unemployment.

### 3.9 Transfer as Punishment

Under this system, when an employee is not suited for the Government job or when he becomes a headache to his immediate superior he is transferred from one station to another station.

### 3.10 Importance of Promotion

A proper promotion system is vital for attracting talented persons to public services and preventing them from migrating to private ones. A good promotion system keeps the employees interested in the job. A proper promotion system helps to retain the service of the most talented employees and give them an impetus to improve their capacities and qualification. Lack of promotion system will enable the capable. Ambitious and intelligent persons to leave the job. The employees will remain discontent, it will have discouraging effect on recruiting. It will discourage the employees from entering upon courses of training calculated to prepare them for increased usefulness in public employment. A good promotion system helps to secure the best possible incumbents for the higher position in the civil service. It also helps the head of the organization to fill the higher posts from among the experienced persons. Thus, a good system of promotion is very important to build up efficiency and morale in civil service.

**3.11 Essential of Promotion System**

Promotion system must be on sound lines. A badly planned promotion system would have an adverse effect on recruiting. Capable persons would not like to enter Public Services. It would affect adversely the efficiency of administration. It would lower the moral standards of the civil servants, which would make maintenance of discipline difficult among them.

A sound Promotion system should fulfill certain conditions according to.

W. F. Willoughby. They are:

1. Adopting of standard specifications setting forth the duties and qualifications required for all promotions in the Government service.
2. The classification of these positions into distinct services, classes and grades.
3. The inclusion within this classification of all the higher administrative positions except those having a political character,
4. The adoptions as far as possible of the principle of recruitment from within for filling up higher post,
5. The adoption of the principle of merit in determining the promotion of employees and
6. The provision of adequate means for determining the relative merits of employees eligible for advancement.

**3.12 Departmental, Inter-Departmental Promotion**

Normally, promotion systems are made departmentally. When a vacancy arises in department for a higher post it is filled from among the employees of that department. However, inter-departmental promotions take place in the following cases:

1. The higher posts such Secretaries or Heads of Departments are filled through inter departmental promotions.

2. When no suitable candidate is available in the Departments to fill a particular post, the suitable candidate is selected from other Departments.
3. When a new Department is created or old one is expanded, suitable candidates are selected inter-departmentally.

It is desirable to have inter-departmental promotion to provide equality of opportunity for advancement of the civil servants.

### 3.13 Principles of Promotion

There are three main principles of promotions. They are:

1. Seniority,
2. Merit and
3. Seniority cum merit.

### 3.14 Personal Judgment of the Head of the Department

Under this system merit for promotion is determined on the personal judgment of the Head of the Department since the Head of the Department has been in close contact with the civil servants, he would be in the best position to know about their qualities. This system is simple and comprehensive. But there are certain limitations in this system.

They are:

1. It can work only in small organizations. Modern organizations are quite big. Therefore, it would not be possible for the Head of the Department to know the qualities of the employees working under his Control.
2. This system is highly subjective; favoritism and nepotism will prevail over merit. Thus, meritorious candidates would not have a chance for promotion.

### 3.15 Promotional Examination

Promotion is also made on the basis of a written examination. The written examination may be on open competition or a limited competition or merely a pass examination. In open competition all the eligible candidates for a position are allowed to write the competitive examination and to get into higher positions. This system widens the range of selection. This system can bring in new blood and fresh ideas.

In a limited competition, examination is allowed for those who are already in service. This system is also known as "closed system". This system is followed in employees of lower grades.

Promotion on the basis of merely a pass examination gives a proof to the minimum attainments. An employee would be promoted only when he had passed the pass examination.

It is felt that the examination method of the Department of the promotion would eliminate favoritism, corruption and arbitrary promotions. This system is quite objective. This system suffers from certain drawbacks. They are:

1. Examination method cannot test the personality of employees.
2. A written examination cannot judge an employee's initiative tact for judgment, which are required in higher positions. Therefore, examination system is not generally used for determining the merits of the employees for promotion except in those cases where technical knowledge is an important requisite for promotional post.

### 3.16 Efficiency Rating

The qualification of employees for promotion is also judged on the basis of efficiency rating which is also called service records. The service records, which are maintained by the Government Departments, furnish the data on the basis of which efficiency may be evaluated. At present Government Departments are so large that no officer can remember the efficiency of the employees working in his Department. Therefore, written records of the service of each employee

and his performance are recorded in their service books. The service records furnish a valuable aid in judging the merits of the employees at the time of promotion.

### 3.17 The Promotion Making Authority

There are two views about who should have the authority to make promotion. According to one view promotion like recruitment should be in the hands of Public Service Commission. According to the second view the Head of the Department should be given the power of making promotion. Under the first system possibility of favoritism, prejudice or victimization in promotion would be eliminated. Against this system it is argued that an outside agency would not be competent to determine the merits of the employees. And if an outside agency is given the power to determine promotion, it would destroy service discipline of the subordinates. He should be vested with the power of making promotion. The risks of favoritism and prejudice would be avoided by suitable procedures and machinery of promotion.

### 3.18 Promotion System in India

In India, seniority and merit are the governing principles of promotion. But these principles are not followed uniformly India. In some administrative Departments seniority is given more weight age and in others, merit is given more weight age. The First Central Pay Commission recommended that promotion to highest posts should be on merit and to the lower posts seniority should be the consideration for promotion.

The Second Pay Commission recommended those employees belonging to Class 2 and Class 3 services should be given Central Services Class I to provide an incentive to the employees of the lower classes.

The Estimates Committee of the Lok Sabha in its 9" report has laid down certain principles of promotion. They are:

1. Promotion should be solely on the basis of merit regardless of the seniority.
2. The officer who has watched the work and conduct of the employees over a period should judge the promotion.
3. Promotion should be made on the recommendation of the Promotion Committee.
4. If an employee was warned in his work and conduct and if he did not show any improvement, he would be warned.
5. If no warning was given to a person, it should not be presumed that the reports on his would justify his promotion.

In India, the Head of the Department concerned is the Promotion making authority. But promotion to higher posts is made in consultation with the Public Service Commission.

The highest administrative post such as Secretary, Joint Secretary, Deputy Secretary are filled from a "pool' which consists of candidates selected by a Selection Committee appointed by the Government with the consultation of the Service Commission. The Ministers make appointments to the highest administrative posts from the pool.

Promotion to other posts is made by a Departmental Promotion Committee consisting of a member of Public Service Commission as the Chairman and senior officers of the Department as the Members. The recommendations of Departmental promotion Committee are ratified by the Service Commission. The Head of the Department makes promotion according to the confirmed list.

Sometimes promotion from State Civil Service to the All India Service is also made. It is done by a Special Committee constituted in each State with a Member of the Union Public Service Commission as a Chairman and other senior IAS officers as Members. The Committee prepares the list of officers of the State Civil Service suitable for the promotion to the All India Service on the basis of merit After the approval by the Union Public Service Commission, promotions are made from the approved list.

### 3.19 Criticism of Promotion System in India

The promotion system in India has been criticized on several grounds. They are:

1. The Head of the Department is given too much importance in recommending names out of which selection is to be made.
2. The system of evaluating the efficiency of employee is not satisfactory.
3. Promotion Committees do not exist in all administrative Departments.
4. There is no declared policy of promotion in India as to the basis on which regular promotions have to be made.

Therefore, it is desirable to declare a promotion policy for India, which should be based on certain principles of promotion.

They are

1. There should be written policy of promotion.
2. The basis of promotion should be seniority and merit.
3. Confidential report should be examined before promotions are made.
4. A scientific procedure should be evolved for promoting the Government employees.
5. Promotion Committee should be constituted in every administrative Department.
6. The supervisor should recommend the promotion.
7. Vacancy should be notified for all the eligible employees.
8. A promotion should not be forces on the employees.
9. Promotion should be made on probation.
10. Recognized labour unions should be consulted during promotion.
11. Promotion should be closely associated with the training program.
12. It should specify the grades, salaries perks, duties and responsibilities associated with the promotion.

### 3.20 Meaning and Definition

According to Filippo training is "the act of increasing the knowledge and skills of an employee for doing a particular job.

According to William G. Torpey training is "the process of developing skills, habits, knowledge and aptitude in employees for the purpose of increasing the effectiveness of employees in their present Government positions as well as preparing for fixture Government positions.

The term training is concerned with imparting specific skills for particular purposes. Training is an unending process. Even for the aged workers, they need to be refreshed, to enable them to suit to the changing environment. Thus training is inevitable to any organization.

### 3.21 Role of Training

Governmental functions have increased manifold. In order to run the organization more efficiently and effective training has become an integral part ir any governmental organization. Thus, training is necessary for different reasons. They are:

**CYP Question**
2. Analyze the Kinds of Training Programme available to the government servants of

1. To increase the efficiency of the personnel,
2. To increase the morale of the employees,
3. To bring about better human relations,
4. To reduce supervision and
5. To increase organizational viability and flexibility.

### 3.22 Need for Training

The basic aim of training is to induce a suitable change in the individuals of better their performance. Training is essential to the employees because of the following reasons

1. To keep oneself fit for the job.
2. To keep abreast of the latest developments in the Government organization
3. To keep adjusted to the changes in the Government organization and the society.

### 3.23 Kinds of Training

The training available to the Government servants can be broadly classified into five heads. They are

1. Pre-service Training,
2. Post-Entry Training,
3. Promotional Training,
4. Refresher Training and
5. Specialized Training

Pre-Service training and Post-Entry training are also called long-term training because these training are given for more than one year. Promotional training, refresher training and specialized training are called short-term training because the above training are offered for less than six months. The above training are also called in-service training because these training are offered to the Government servants when they are in service.

### 3.24 Evaluation

In India most of the training Though, the different kinds of training are quite necessary for all the Government servants, unfortunately the different kinds of training are not available to all the Government servants. Since the different kinds of training are necessary to all the Government servants, the Government should take necessary steps to provide different kinds of training to all the Government servants .Institutions are not provided with sufficient infra structural facilities. Some training institutions do not even have the basic facilities such as proper class rooms, library etc.,, The Government should take necessary steps to provide sufficient infra structural facilities to all the training institutions.

1. The syllabi prescribed to train the Government servants are not in tune with the changes in the Government service. The syllabi should be updated taking into consideration of the changes in the Governments service.
2. It is generally complained that there is linkage between the training offered and the job the Government servants take up. As a result the

Government servants find it difficult to perform their dutie immediately after appointment. The Government should take step: to provide training taking into consideration of the jobs the Government servants have to take up.

3. There is another complaint that more emphasis is given to institutional training than the practical training in the post-entry training. The Government should take steps to give more emphasis on practical training rather than the institutional training.

4. The scholars of Public Administration say that the training is not continuous. Since lot of changes are taking place in the administrative machinery, the Government servants should be provided continuous training to keep in tune with the changes in the administrative machinery.

**3.25 Summary**

A proper promotional system is needed each employee to motivate himself. Hence, there is a thrust of finding out some valid principle for promotion. Which could be possible by evolving suitable policies. And also the training programme plays vital note in the productivity of the employees in term of their work efficiency. The scholars of public administration says that the training is not continuous and the employees should be in the with the changes in the administrative machinery through a well defined training programme.

**3.26 Key words :**

(i) Administrative promotion
(ii) Confidential Report
(iii) Scientific procedure
(iv) Morale
(v) Organizational viability and flexibility
(vi) Pre-service practical Training.

**3.28 Books For Further Reading:**

1. Personnel Public Grievances & Penssons – Satish Tiwar.
2. Speeches and Writings of G.V. Mavalankar, Speech to Public Accounts Committee, p.97.

3. Article 148(3) and 149 of the Indian Constitution.
4. Administrative Reforms Commission: Report on Finance, Accounts and Audit.
5. Asok Chanda, op.cit., p.249.

**3.27 Answer for CYP Questions :**

For Question No.1 – Refer Section No.3.1
Question No.2 – Refer Section No.3.20

**3.29 Model Question:**

(a) Define and Explain the acronyms – PROMOTION, TRANSFER and Advancement

(b) Analyze the kinds of training programmes available to the government servants of India.

# UNIT: 4

# CONDUCT AND WORKING RULES, EMPLOYEE'S ASSOCIATION

## Introduction:

Government officers are given certain powers over the life and activities of the people. A high moral standard among the government servants must be ensured, so as to set on example to the people at large. Retirement is the back bone of public administration. It is an integral part of personnel administration Several thousands of rupees are paid to the civil servants after retirement for which the Government does not receive Corresponding Service from them. Every citizen of India has the right to from association within the legal purview. In India, the government servants are provided with the right to form association except those are engaged in essential services.

## Objectives

(a) To find out the basic needs for the development of the conduct and Discipline principles.

(b) To examine the suitability of disciplinary principles

(c) To explain about various measures available of the employees from maladministration

(d) To find out the need for Retirement system

(e) To appraise the features of a retirement system

(f) To analyze the retirement benefits available to the government servants

(g) To analyze the nature and power of employees association

## Structure

Essentials of Code of Conduct

Rule of Integrity

Civil Service Code of Conduct

Disciplinary Action and its procedures

Power to heal appeal

Constitutional Safeguards of Civil Servants

Conclusion

Need for retirement system

Retirement age

Compulsory refinement

Voluntary refinement

Retirement on the grounds of Disability

Retirement on the abolition of office

Forced retirement

Retirement benefits

Non-contributory pension

Partly and wholly contributory system

Kinds of Pension

The Quantum of pension

Provident fund

Gratuity

Rights associated with the right to form Association

Rights to Associate with the outside Trade Union

The Right to Arbitration

The Right to Collective bargaining and strike

Industrial and whitely councils

Organization and powers of whitely councils

Staff council

There-tier machinery

## 4.1 Introduction:

Government officers are given certain powers over the life and activities of the people. A high moral standard among the government servants must be ensured, so as to set on example to the people at large. Retirement is the back bone of public administration. It is an integral part of personnel administration Several thousands of

rupees are paid to the civil servants after retirement for which the Government does not receive Corresponding Service from them. Every citizen of India has the right to from association within the legal purview. In India, the government servants are provided with the right to form association except those are engaged in essential services.

## 4.2 Essentials of Code of Conduct

A code of conduct is quite for a number of reasons.

They are:

1. To maintain good behavior of the employees towards their superiors,
2. To maintain integrity in the Government service,
3. To maintain discipline in the service,
4. To ensure neutrality in the Government service and
5. To enable the employees to observe certain code of conduct in the private life.

## 4.3 Rules of Integrity

Rules of integrity are the main parts of code of conduct. They are:

1. Every employee should maintain integrity and devotion to duty;
2. An employee of public service should not employ his son, daughter or relatives in an organization with which he has official contacts;
3. An employee should not accept any gifts, contributions and presentations from any person;
4. An employee should not also allow his son, daughter or relations to accept any gifts, contributions from any person;
5. An employee should not engage himself directly or indirectly in trade or business or any other employment;
6. An employee should not lend money without the previous sanction of the Government;
7. An employee should not borrow or should not allow his wife, son, daughter or any member of his family to borrow money;
8. An employee should observed official secrecy;
9. An employee should be punctual in attending to his work;

10. An employee should maintain cordial relation with his co-employees or subordinates;
11. An employee should obey the official orders of his superior, and
12. An employee should think of general interest and not personal interest while discharging his duties.

**4.4 Civil Service Code of Conduct**

Different categories of Government servants are governed by separate but substantially similar sets of conduct rules. In India certain sets of conduct rules are followed. They are:

**CYP Questions**
4. Describe the term code of conduct and disciplinary and explain their features

1. All India Services (Conduct) Rules, 1954;
2. Central Civil Services (Conduct) Rules,1955,
3. Railway Services (Conduct) Rules, 1956.

The most important rules of civil service code of conduct may be briefly summarized as follows:

1. The first and the most imperative duty of civil servant is to carry out his functions in accordance with the constitution and the laws of the country.
2. Secondly, he has to obey the official orders of his superiors, as far as possible they should not contradict the law;
3. The civil servant must carry on his duties with sincerity and probity with impartiality and integrity and with industriousness and care. He should not drunk of his personal, communal or political interests while discharging his official duties;
4. Civil servants have to be truthful in their official dealings, even when they are under a charge;
5. Courtesy towards subordinates and politeness to the public are among other obligations of the civil servants;

6. Safeguard and maintenance of the dignity and respect of service is another obligation of the civil servants. They should not allow an insult howsoever slight, to the office to pass unnoticed;
7. Even in their unofficial and private life, civil servants are not followed to behave that could affect the dignity, confidence and respect of their office. For example, they should not lead irregular life, indulge in gambling and sensuous pleasure or contract debts;
8. Civil servants are whole-time workers for the State. They therefore cannot take any additional office or employment other than their official ones. Even official's dependence require not to take up such trade or vacation that is likely to cause suspicion upon the official's integrity and impartiality or which is likely to result in the degradation of his official dignity;
9. The civil servants must observe official secrecy; and
10. Civil servants have to be punctual in their work, as punctuality is the essence of efficiency.

**4.5 Disciplinary Action**

The Civil servants are expected to act according to the established rules. The civil servants are given punishment for violating the rules of conduct. This is known as disciplinary action. L.D. White gives the causes for disciplinary action against the civil servants. They are.

1. In attention to duty, laziness, carelessness, breakage or loss of property etc.,
2. Inefficiency,
3. Insubordination i.e. violation of laws or rules,
4. Informality,
5. Intoxication appearing in public intoxicated condition,
6. Lock of integrity, i.e. bribery, corruption etc., and
7. violation of recognized code of ethics, failure to pay debts etc.

### 4.6 Power to Hear Appeal

As regards the power to hear appeal, an employee appointed by the president has no right to appeal from an order passed by the President himself. A member of the All India Service may appeal from the order of a State Government of the President. A member appointed by the President may appeal to the Government from an order passed by the State Government. All employees of lower grade services may appeal to the authority, which made the rule to which the order under appeal relates. Appeal can be preferred only if;

1. It is permissible under rules,
2. It is not defective in form and preferred through proper channel
3. It is preferred within six months after the date of the communication of the order,
4. It is not are petition of a previous appeal to the same authority and
5. It is addressed to an authority to which appeal lies under the rules.

### 4.7 Constitutional Safeguards of Civil Servants

The Constitution of India has provided certain safeguards while taking disciplinary action to avoid possible victimization. They are:

1. No employee shall be dismissed by an officer below the rank to one who had appointed him,
2. No employee shall be punished except for a cause,
3. An employee should be given reasonable opportunity to prove himself
4. An employee should be informed of the charge leveled against him and
5. The Board of Enquiry should consist of two or more senior officers, among whom on member should be an officer of the service of which the employee belongs.

## 4.8 Conclusion

We have seen that there are certain procedures to initiate disciplinary action against the erring civil servants. These procedures are unfortunately cumbersome and may corrupt bureaucrats escape from the clutches of procedural law. The close nexus between the politicians and civil servants in corrupt activities have made them to easily evade law and destroy the evidences. The Vohra Committee has recently highlighted the nexus between the politicians, the criminals and the civil servants. There are many Honest and hardworking civil servants who have set an example for others to follow. In the context of rapid development there is a need for strict vigil over the nefarious activities of few civil servants. Otherwise, they will plague the entire system of administration. The present rule and regulation, if followed stringently, we can easily set right the behavior of erring civil servants.

## 4.9 Need for Retirement System :

Retirement system is quite necessary for various reasons. They are:

1. According to L.D. White,, ", a Retirement System for civil employees is primarily designed to facilitate the termination of employment of men and women whose power have failed on account of age or disability by granting allowances for past service, to provide benefits to dependents in case of death and to improve the morale of services by creating sense of economic security".
2. The retirement system helps to eliminate the employees from civil service who are unable to discharge their duties adequately This is necessary in the interest of economy and efficiency in the civil service.
3. Retirement of employees from senior position is essential to provide opportunities for promotion. As the number of higher posts is limited, if the people at the top do not retire, the employees on the lower ranks cannot be promoted to the higher posts. In the absence of opportunity for promotion the civil servants would not put their heart and soul in their work.
4. To inject new blood and bring in fresh ideas in civil service, it is necessary that older employees should retire providing room for new entrants. This will be possible only when vacancies occur only when their is Retirement system.

**CYP Questions.**
2. Examine the different types of retirement programmes and their benefits

5. Unless there is a Retirement System, talented employees would not be attracted to the civil service.
6. A Retirement System is quite necessary to retain the best-qualified persons in Government service.
7. It is desirable on humanitarian grounds that employees who have become less efficient or incapacitated for work as a result of physical or mental disabilities upon advancing age should not be dropped from service without any provision for their financial needs. Thus Retirement System is quite necessary for all the employees of the civil service reaching the retirement age.

**4.10 Retirement Age**

The retirement age varies from country to country. The law passed by the legislature generally fixes the age of retirement. Sometimes, the retirement age is also fixed by the Constitution For example; the age of retirement of judges of the Supreme Court and the High Courts is fixed by the Constitution. The Supreme Court Judge is appointed for a term of six year or until he completes the sixty fifth year whichever is earlier. The age of retirement for the employee's varies from country to country. In India it is between 55 and 60 years, in Britain it is between 60 and 65 years, and in the United States of America it is between 65 and 70 years. This variation of retirement is due to the climatic condition and the average expectations of longevity of life.

Classification of Retirement System

The scholars of Public Administration have classified the Retirement System into five kinds. They are:

1. Compulsory retirement,
2. Voluntary retirement,
3. Retirement on the grounds of disability,

Retirement on the abolition of office and

. Forced retirement.

**4.11 Compulsory Retirement**

An employee is asked to retire on reaching the fixed age. This is called compulsory retirement. On exceptional cases, an employee may be retained in service after the age of retirement. As it is already stated, the laws passed by legislature and sometimes by the Constitution fix the retirement age. The age of compulsory retirement varies from country to country.

**4.12 Voluntary Retirement**

If an employee has completed a specified age of service, he can voluntarily retire from service. This type of retirement is called voluntary retirement. If an employee has completed 25 years of service he can voluntarily retire from the service.

**4.13 Retirement on the Grounds of Disability**

If a civil servant becomes disabled physically or mentally he is allowed to retire on the grounds of disability. This Retirement System is called retirement on the grounds of disability.

**4.14 Retirement on the Abolition of Office**

If the office in which a Government employee is working is abolished, he has to retire from service. This retirement is called retirement on the abolition of office.

**4.15 Forced Retirement**

A civil servant is forced to retire from service on charges of inefficiency, misconduct and insolvency. This type of retirement is called forced retirement.

**4.16 Retirement Benefits**

Since the Government servants have spent their entire life career in the service of the Government, they should be provided with certain benefits aftger the retirement. These retirement benefits are available to the Government servants through various schemes. They are:

1. Pension.
2. Provident fund and
3. Gratuity.

### 4.17 Non-Contributory Pension

Under non-contributory pension system, the entire pension amount paid to the Government servants is borne by the Government.

### 4.18 Partly Contributory Pension

In the partly contributory pension system Government would contribute a part and the employees will contribute the rest.

### 4.19 Kinds of Pension

The pension payable to the Government servants can be broadly classified into five kinds.

They are:

1. Superannuation pension
2. Retiring pension,
3. Invalid pension.
4. Compassionate pension and
5. Compulsory pension.

### 4.20 The Quantum of Pension

The quantum of pension as we have already explained is decided on the basis of total years of service put in by the Government servants and last pay drawn by them. If a government servant has served for 33 years, he is eligible for full pension, if he has served for more than 10 years and retires from service on the various grounds mentioned above, he is pad pension in proportion to the years of service he has put in the Government service.

### 4.21 Provident Fund

Provident fund is paid as a lump sum amount after the retirement there are:

1. Contributory provident fund,
2. Partly contributory provident fund and
3. Wholly contributory provident fund

### 4.22 Gratuity

As we have already mentioned, serval thousands of rupees are paid to the Government servants after retirement for which the Government does not receive any corresponding service form them. The provision for retirement benefits has been made in the Government to attract the efficient persons to the Government service. All the countries of the would have adopted the retirement system and provide retirement benefits to the Government servants.

### 4.23 Rights Associated with the Right to Form Association

When the Government servants are allowed to form association, the question arises whether they can be provided with other rights associated with the right to form association. They are:

1. The right to associate with the outside trade unions'.
2. The right to arbitration,
3. The right to collective bargaining and
4. The Right to strike.

**CYP Question**
3. Write an essay on the right to form association t the Government servants

### 4.24 Right to Associate with the Outside Trade Unions

The Government employees' associations are not allowed to associate with outside trade unions for various reasons. They are:

1. The Government employees' association consist of white-collar people: Whereas the trade unions consist of workers.

2. The Government employee's associations make use of persuasive methods to achieve their ends. Whereas the trade unions make use of violent methods to achieve heir ends.
3. The right to collective bargaining is not provided to the Government employees' associations. Whereas these rights have been granted to the trade unions.
4. The right to strike is not permitted to the Government employees' associations whereas this right has been extended with certain limits to the trade unions.

Since the Government employees. associations and the Trade Unions basically differ in the compositions. approaches and objectives. the Government employees' associations in most of the world are not allowed to associate with the outside trade unions.

**4.25 The Right to Arbitration**

When there are problems between the Government and the Government employees' whether these problems can be tried through an impartial judge is the problem. Since this right of the Government servants is quiet reasonable. this right has been extended to almost all the Government employee's associations of the different countries of the world.

**4.26 The Right to Collective Bargaining**

This right is a basic right extended to the trade unions. Most of the problems of the employees in private organization are solved through collective bargaining by the trade unions. Since this right will endanger the discipline in the Government service, the Government employees' associations, in most of the countries are not provided this right.

**4.27 Industrial Councils**

During the First World War, the workers in the private Industries went on strike. As a result, production in the Industries suffered. In order to increase the production in the private industries and to resolve the problems of the workers in the private Industries, the

British Government recommended to have an Industrial Council in each Industry consisted of representatives from the management and the workers. Half of the members in the Industrial Council would be from the management side and the other half from the

workers side. The Chairman would be from the management side and the Vice-Chairman from the workers side. If there were problems for the workers in the Industry, they represented their problems to the Industrial Council. The Industrial Council after examining the problems of the workers recommended certain measures to set right their problems. The management immediately implemented the recommendation and the problems of the workers were solved.

**4.28 Whitley Council**

The employees of the British Government wanted to have machinery like the Industrial Council to set right their problems. The British Government appointed a Committee under the Chairmanship of Whitley to consider the demands of the Government employees.

Whitley recommended having a Council at National level, a Council in each Department and a Council in each District Office. On the basis of Whitley's recommendations, a Council at the National level and a Council in each Department and Council in each District Office were created. Since Whitley recommended the constitution of the Councils, these Councils were called Whitley Councils.

**4.29 Organization of the Whitley Councils**

There are 88 Whitley Councils at National, Departmental and District Office levels. The half of the Members in the Whitley Council was from the management side and another half was from the employee's side. The Chairman was from the management side and the Vice-Chairman was from the workers side. The strength of the Whitley Council was decided on the basis of the number of employees at the National, Departmental and the District Offices levels. If there were problems to the Government employees, they would represent their problems to their concerned Whitley Council. Whitley Council would consider the problems of the employees and would make recommendations. The Government has to put these recommendations into effect immediately as a result the problems of the Government employees were solved and there was no need for the employees to go on strike.

**4.30 Staff Councils**

A.D. Gorwala and Paul. H. Appleby recommended having machinery like Whitley Council in each Department. On the basis of their recommendations Staff Councils were created in each Department. Half of the members in the Staff Council were from the officers' side and half of the members were from the employees' side. These Staff Councils were provided with only limited powers. They were:

1. To Suggest measures to improve the efficiency of the Government organization,
2. To suggest measure to improve the relations between the officers and the employees and
3. To suggest measures to improve their working conditions-

The Staff Councils made lot of recommendation within the limited powers. But the Government did not put their recommendations into effect. As a result the problems of the Government servants were not solved and they had to go on strike to get their problems solved.

**4.31 Three-Tier Machinery**

In 1960s the Government of India in order to set right the problems of the employees without going on strike, wanted to create a three tier machinery consisting of

1. National Council
2. Department Councils and
3. District Councils

A Bill was introduced in the Parliament ot have the three- tier machinery and the Bill was enacted into an Act. The three-tier machinery has been constituted at National, Departmental and District levels. But even after the creation of the three-tier machinery, the problems that are vested in the Government servants have not been solved- because the powers that are vested in the Whitley Councils are not vested in the three-tier machinery.

For example, matters relating to the conditions of service and Personnel Administration are considered by the Public Service Commission and not be the three-tier machinery. The three tier machinery also has no power to prepare a Bill and see to it that the Bill is enacted into an Act to set right the problems of the Government servants.

**4.32 Summary**

The present rules and regulations are, if followed strictly, we can set more rightly the behavior of entire civil servants in the country. There fore, the effectiveness of the code of conduct not only lies on the formulation, but also rests in the proper execution. As we have already stated, several thousands of rupees are paid to the government servants after retirement for which the government does not receive any service from them. The association of the Government staffs safeguards them, whenever the political leader turned against them. Therefore, these associations acts as smooth runner of the government machinery.

**4.33 Key words:**

(1) Lode of Conduct
(2) Integrity
(3) Immorality
(4) Code of ethics
(5) Pension
(6) Gratuity
(7) Provident Fund
(8) Right to form Association
(9) White collar people
(10) Whitely councils
(11) There tier machinery.

**4.35 Books for Further Reading**

1. India ( Budget)
   - V.S. Naipaul Publisher Random House Publications.

2. Speeches and Writings of G.V. Mavalankar, Speech to Public Accounts Committee, p.97.
3. Article 148(3) and 149 of the Indian Constitution.
4. Administrative Reforms Commission: Report on Finance, Accounts and Audit.
5. Asok Chanda, op.cit., p.249.

**4.34 Answer for CYP Question :**

For Question No.1 – Refer Section No. 4.3
Question No.2 – Refer Section No. 4.8
Question No.3 – Refer Section No.4.22

**4.36 Model Question**

(1) Describe the term-Code of Conduct and Discipline, and explain their features

(2) Examine the different types of Retirement programmes and their benefits.

(3) Write an essay on the Right to form Association to the Government Servants.

# UNIT - 5

# EVOLUTION AND CONTENTS OF BUDGET IN PUBLIC FINANCIAL ADMINISTRATION

## Introduction

Modern states are welfare states. The welfare states implement lot of welfare programmes for the benefit of the people. It is also said that finance is like a fuel to run the engine of public administration. Therefore, it is said that finance is like a fuel to the growth of a healthy nation. Kautilya states emphatically that the revenue, it obtains. sustains the state. Expenditure was to be shown in the budget and accounts fewer than fifteen heads like. So, from the ancient day it self finance in public administration tool a rital role like blood in a human body. The financial administration in a country will be done in the form of Budget process. Budget in every important document, which explains the expected expenditures and in comes of a fore coming year.

## Objectives

(a) To find out the available financial sources to implement and control the development measures.

(b) To analyze the effectiveness of the controlling agencies of finance.

(c) To trace out the historical development of financial administration in the state fnctionary.

(d) To find out the various types of Budget and their principles.

(e) To examine the draw backers of while preparing budget.

## Structure:

Meaning of public financial Administration.

Nature and Scope of Public financial Administration.

Agencies of Public financial Administration

Revenue administration

Financial administration under the East India company.

Under the Crown
Modification of System before Independence
Change Since Independence
Financial Accountability
Meaning of Budget
Principles of Budget
Balanced Budget
Cash Basis
Exactness
Rule of Lapse
Annualari of Budget
Single Budget
The Chief Executive and the Budget
Principles for preparation of Budget
Forms of account
Separation of Revenue and Capital
Summary
Keywords
Books for further Reading
Answer for CYP Questions
Model Question

**5.1 Introduction**

Modern states are welfare states. The welfare states implement lot of welfare programmes for the benefit of the people. It is also said that finance is like a fuel to run the engine of public administration. Therefore, it is said that finance is like a fuel to the growth of a healthy nation. Kautilya states emphatically that the revenue, it obtains, sustains the state. Expenditure was to be shown in the budget and accounts fewer than fifteen heads like. So, from the ancient day it self finance in public administration tool a rital role like blood in a human body. The financial administration in a country will

be done in the form of Budget process. Budget in every important document, which explains the expected expenditures and in comes of a fore coming year.

**5.2 Meaning of Public Financial Administration**

The available financial resources with any Government are very much limited. That is why almost all the Government in the world prepare deficit Budget. With the available scare financial resources, the Government has to carryout a large number of function. How to carryout a large number of functions by the Government with its limited financial resources is the concern of the study of Public Financial Administration.

**CYP Question.**
5. Write an essay the area of Public Financial Administration

**5.3 Nature of Public Financial Administration**

India has a mixed economy. It has allowed both private and governmental enterprises to operate. They raise funds and spend on various programmes to take care of the welfare of the people. Public Financial Administration is not concerned with how private organizations raise funds and spend on various programmes to take care of the welfare of the people. The nature of Public Financial Administration is concerned with how governmental organizations raise funds and spend on various programmes to take care of the welfare of the people.

**5.4 Agencies of Public Financial Administration**

A number of agencies are involved in the various activities of Public Financial Administration. Let us briefly explain their roles.

Accountant General of India prepares the Budget forms in consultation with the Estimates Committee. The Estimates Committee also makes recommendations to the various Departments in the preparation of the estimates. The Accountant General of India submits these forms to the Finance Ministry. The Finance Ministry submits these forms to the different Department Heads on the basis of their requirements. The Finance Ministry is also given the power to see that the different Departments carryout the functions on the basis of allocation made by the Parliament.

The different Departments prepare the Budget estimates and send one copy to the Accountant General of India and another copy to the Finance Ministry. The Accountant General of India verifies whether the Budget has been prepared on the heads stipulated by him. If they are not prepared in accordance with his stipulations, he makes remarks on the Budget prepared by the different Departments and had it over to the Finance Ministry The Finance Minister scrutinizes and reviews the Budget estimates prepared by the different Departments on the basis of the remarks made by the Accountant General of India. He has also been given the power to make changes in the Budget estimates prepared by the different Departments in order to bring out the economy and efficiency in Public Financial Administration.

The Finance Minister after making certain change in the Budget estimates submits it to the cabinet. Once the cabinet has approved the Budget, the preparation of the Budget is over.

The Finance Minister introduces the Budget in the Parliament, the Parliament passes the Budget in both the Houses with the approval of the President.

Once the Parliament has approved the Budget estimates the Revenue Department starts raising revenue and the spending Departments start spending on the various programmes approved by the Parliament.

There are more than 300 Treasuries and Sub Treasuries throughout India. These Treasuries are responsible to keep custody of the Government funds and to disburse them on the basis of receipts and vouchers produced by the spending Departments. It is necessary that a systematic account should be kept by the each Department. The Departmental Heads see to it that the Departments keep proper accounting which could conform to the columns provided in the Budget estimates.

The Comptroller and Auditor General of India is responsible for auditing the Government accounts. While auditing the accounts he should verify that funds are

spent only for appropriate purposes and there are no financial irregularities. If the funds are a not spent for the appropriate purposes or if there are any financial irregularities, he would point out them in his report this report is submitted to the President. The President submits this report to the Parliament. The Parliament submits this report to the Public Accounts Committee. It scrutinizes and reviews the report submitted by comptroller and the Auditor General of India and invite the Officers responsible for financial irregularities and explain. If the explanation of the officers are not satisfactory. the Public Accounts Committee in its report submitted to the Parliament point out the Officers responsible for financial irregularities. The parliament recommends actions against Officers responsible for financial irregularities. The Government takes actions against them and thereby the mistakes are corrected.

**5.5 Revenue Administration**

Kautilya states emphatically that the revenue it obtains sustains the state. The importance of the treasury (Kosa), which is one of the seven prakritis of the state, is quite obvious. In fact, Kautilya believed that the Kosa was more important than the danda (army). Expenditure was to be shown in the budget and accounts fewer than fifteen heads including the palace, the armory, etc. This is called the vyayasarira, the body of expenditure. Since a large part of the state revenue was received in kind, he also emphasized the setting up of state storehouses. The state income was classified in the budget and accounts under seven heads: city, country, mines, irrigation, works, forest, cattle hears and trade routes. Revenue from these came either in the form of taxes or imposted or profit made by state enterprises.

The Shastra recognize three principal vocations as means of livelihood agriculture, cattle tendering and trade, the most important was of course agriculture. It was however strictly controlled by the state through the samahartr and his assistants. They kept detailed records of all agricultural holdings with details about the different types of fields records of all agricultural holding with details about the different types of fields and the crops raised in them. Strict vigilance was to be maintained in order that the state may not be cheated of its due share. As regards pastures, it seems that all

grasslands belonged to the state. The go-adhyaksa was the superintendent of the cattle who kept a record of all the animals. The Arthashastra also prescribes a land tax, exemption from taxes etc. All trade was to be under state control with the panyadhyaksa the Superintendent of Trade in charge. Kautilya also talks of sale of state goods, currency, role of private traders, sulka (state taxes), imports and exports and even excise tax on indigenous products. It was prescribed that all trade routes should be under state control.

The trade engaged in by the state was in the hands of the panyadhyakas. The lavandhyaksa was responsible for the manufacture of salt, supply and fixing prices. Under the akaradhyaksa - highest officer in charger of meaning - there were state functionaries like the lohadhyaksa (base mental manufacture in charge) the suarnadhyaksa (superintendent of gold) and the Khanyadhaksa (in charge of mines) etc. These functionaries in ancient India were either in the nature of corporations, of officials presiding over public boards.

From this, a picture of elaborate control of the economic life by the state emerges. This was obviously done for earning maximum possible state revenue.

**5.6 Financial Administration under the East India Company**

The Battle of Buxar in 1765 which gave the Diwani Rights to the East India Company marked the beginning of Company's administration over Indian finances. The Board of Control of the East India Company controlled the Indian financial administration fro the revenues from India were part of the commercial earnings of the company. The Superintendence and control of public revenues in each Presidency vested in the hands of the Governor of that Presidency but during war time the Governor General in Bengal could use the funds at the disposal of the Presidencies.

**CYP Question**
2.Trace out the historical growth of public financial administration in our country.

The Government of India Act of 1833 transformed the Commercial Company into a governing Corporation. This act vested the superintending authority in the Governor General of India in Council. The company's property was held as trust

for the crown and so the Government of India was in full control of the Indian finance. In 1854 the Finance Secretary to the Government of India was also made the Accountant General of India and this combination of finance and accounts strengthened the hands of the Finance Secretary considerably and unified the system of financial administration

**5.7 Financial administration under the Crown**

After the Sepoy Mutiny in 1857 the Indian administration was taken over by the British C[illegible]n by the Government of India Act of 1858. Those who tried to refashion the fina[illegible] system in India were greatly influenced by the British system. But while transplanting their own system to India, they were also influenced by the exigencies of the Indian situation and the political compulsions of the day. The financial chaos following the Sepoy Mutiny demanded a massive mobilization of tax resources and strict control over expenditure. Further they had to promote British economic and political interest in India. So the Government of India was made accountable to British Parliament through the Secretary of State, a member of the British Cabined. This lack of a popular base led to several defects.

There were four major features in the system of financial administration in India front 1858 to 1935.

i) The Secretary of State in Council was the chief regulator of the financial system.

ii) Governor General in council exercised delegated financial authority.

iii) Finance Department was the custodian of Indian finance and

iv) Controller General combined responsibility for Indian Audit and Account.

The Indian administration had 3 tiers, the Secretary of State, Governor General and the Governor. The Secretary of State was the foundation head of all authority the office of the secretary of state was called the India Office. There was a finance

Committee which was assisted by the Finance Department of the India council. The decision of the Secretary of state in council was final in all financial matters. But lack of proper means of communication made the Secretary of State who was operating form London delegate most of his powers to the Governor-General of India.

Thus in India the ultimate control of the Finances vested with the Governor-General in Council that is the Viceroy, the representative of the Crown in India. In the exercise of his delegated authority, the Governor-General or the Viceroy was advised by the Finance Member of his Executive on all financial matters. The Finance Member prepared a fore case of income and expenditure of the Government of India in the form of a budget called the Annual Financial Statement He also supervised the Administrative work of different provincial financial departments. This supervisory function was removed by the Government of India. Act of 1935 which introduced provincial autonomy. The finance Department framed the various codes, general financial rules and civil service regulations in order to ensure uniformity in conditions of service.

The preparation to budget and its presentation enabled the Financed Department to scrutinize the income and expenditure before hand. Defense occupied an important place in the budget and the military finance branch dealt worth questions relating to military finances of the country. The Revenue Department was not mainly a part of the financial organization but it dealt with land revenue which was the main source of provincial income.

The Accountant General (Auditor General - Comptroller) was a statutory officer independent of the Government of India. Audit and accounts were combined in his hands and in the performance of these functions, the Accountant General of a province helped the Controller - General. But the military accounts were outside his jurisdiction. The Military Accountant General sent the audit reports of the Military Department to the Accountant General.

The Controllers of Currency performed four major duties namely management of currency, resources, ways and means operations of the Government of India and the management public debt. The Controller of Currency received the accounts of receipts and expenditure from different parts of the country every month and informed the Finance Department the exact state of public treasury. He was also the link between the Government and Commercial finance. The Controller of Currency was assisted by Deputy Controllers of Currency located in each province. The net work of treasuries and sub treasuries was designed in each province. The net work of treasuries and sub treasuries was designed to deal with the payments and receipts of the Government of India and the provincial governments. They kept the custody of funds and prepared primary accounts. The Treasury officers who were in charge of District Treasuries were under the control of the District collector and the Sub Treasury officers who were in charge of the sub-treasures were under the control of the Tahsildar.

**5.8 Modification of the system before Independence**

Centralization of financial control was introduced by the India Act of 1853 and as a result the provincial governments had not interest in mobilizing resources or check extravagance. But the provincial authority was gradually increased by the Acts and settlement made in 1870, 1877, 1882, 1897, 1940 and 1915. The Report of Royal Decentralization commission in 1970 led to the permanent settlement of 1911 in decentralizing the resources with added responsibilities.

The Government of India Act of 1919 which embodied the recommendations of Mont ford Reforms, went further in decentralization and responsible Government. The Act of 1919 did not change the authority of the Secretary of State who continued to be all powerful in financial matters and also there was no change in the relative position of the Governor – General of India and the Secretary of State but this Act of 1919 tried to increase the powers of the Governor General in India who could overrule the advice of his Executive Council in the interest of the tranquility and safety of British India. This Act introduced dyarchy in the provinces which inaugurated a definite provincial

responsibility in a number of subject called the Transferred subjects. In the case of Transferred subjects, the Governor was assisted by the Provincial Finance Department.

Dyarchy in the Provinces was removed by the Government of India Act of 1935 which introduced dyarchy in the Centre. Popular ministries were established in the provinces in 1937 but the Governor was vested with special responsibilities which accounted for 15 percent of the provincial expenditure. In general he was under the control and direction of the Viceroy. On the other hand he had to present the budget before the legislature and all grants and money bills were considered by the legislature on his recommendation. He received all audit reports on provincial accounts and decided whether any proposed expenditure fell within a class of expenditure charged on the provincial revenues.

The Central Finance Department began to lose its importance slowly with the gradual evolution of provincial authority and decentralization of responsibility. The Act of 1919 demarcated central and provincial subjects. Though its powers remained the same with regard to the Reserved subjects, the provincial governments were not required to submit budget proposals on Transferred subjects to the Central Finance Department. But the provincial governments could not float loans without the prior permission of the central government.

Through realistic budgets and departmentalized responsibility for financial control, effective control over expenditure was achieved. The head of each department was made responsible for the control of expenditure in his department. Grants were divided and assigned to various controlling officers of railway finance after 1924, the Financial Commissioner of the Railway Board exercised financial control in the Railways Financial Advisers were appointed for the Army, Posts and Telegraphs and they controlled the expenditure in the fields. The Government of India Act of 1935 further weakened the control of the Finance Department at the centre. Dyarchy was introduced at the centre and the transferred subjects were under popular control. Since large powers were give to the provinces as a result of provincial autonomy the Central

Finance Department had to be very careful IA & AS officers. Since public expenditure was increased by the out break of the second world war. Financial Advisers were appointed in the Finance Division to work in close association with the Department of Industries and supplies.

Certain peculiar features of the Government of India Act of 1935 affected self Government and decentralization. Popular control over finance was affected by the special powers of the Vicerory and the Governors. Without their permission no tax or expenditure could be considered for legislation and no new expenditure could be incurred without their permission. Thus the foundation on which legislative financial control was developed during the British period was weak. Though the Act of 1935 decreased the powers of the Secretary of State it did not eliminate his remote control. Decentralization was not accompanied by any delegation of financial powers from the Finance Department to the spending departments. They system of financial control was complex. rigid and rule --oriented. The atmosphere tht surrounded financial operations was one of suspicious and distrust. It was this system with all its distortions and rigidities which India inherited form the British.

**5.9 Changes since Independence**

Great changes were introduced in the financial administration of India after the Independence in 1947 and after the introduction of the Constitution of 1950. The President became the head of the Indian Republic and the executive accountability to the legislature became the main feature of the financial administration in India. Further financial administration was oriented to meet the task of development and social welfare unlike in the pre-independence days when the British Government was mainly interest in the maintenance of law and order and the protection of British interest in India. Planning became necessary to achieve development objectives and many Five Year Plans were introduced. The plans envisaged a mixed economy in which the public sector was to should great responsibilities. The public sector comprised infra-structural facilities. heavy and capital goods industries and high programmes of social services.

The Plans had to be financed and budget was the instrument through which resources could be mobilized, allocated and controlled in relation to the size, pattern and priorities of the Plans. The Plans were largest oriented. While budget was directed to the appropriation of funds. Attempts were made to remove the disharmony in classification of Plans and budgets. The classification problem was related to the accounting framework, and better analysis of government expenditure was made for the first time in 1965. Distinction between Plan and non Plan expenditure was also retained in the budget and accounts. The next important accounting reform was the separation of audit and accounts in the Government of India by 1976.

Changes were introduced in the preparation of budgets. Traditional type of balanced budget began to give place to one creating surplus amount in the current revenue, allowing public borrowing and deficit financing in the capital account. The Taxation Enquiry Commission 1953-55 explored the fields of getting additional resources through an extensive and intensive use of taxation. Non-taw revenues were also considered as an important source of financing the Plans. Internal borrowing from the public, the banking system and other financial institutions became important in order to direct these resources to priority sectors. Borrowing from international lending organizations and foreign governments was also done to finance the Plans. But this dependence on foreign help and difficulties in the mobilization of domestic resources led to deficit which resulted in inflation. Several Committees such as the Wanchoo Committee. The Choksi Committee, were appointed to rationalize direct taxes, explore new revenues, control tax evasion and to streamline direct Tax administration. Land revenue has decreased and Excise and sale Taxes form a large part of the revenue. Indirect Taxes form about 80 precent of the total tax revenues. But all these have failed to solve the economic problems. The dependence of the states on the centre has also increased. Thus all the financial reforms have not yielded the expected results.

The objective of the plan and the targeted programmes could not be achieved by a change in the format of the budget to a performance basis. The procedure for the

formulation and control of expenditure ws to be made properly. Investment decisions were effectively made only after 1972 when Public Investment Board was formed. The machinery fro investment decision s has also been diffused and complicated.

Financial control did not get the money's worth of results. The financial rules and procedures and the training of those who manned the machinery for financial control greatly depended on regularity and legality. So financial control continued to be slow and much detailed. There was no appreciation for the time value of money. The Planning Commission tried to shift the emphasis to resutl oriented financial control but the financial system was not quite responsive. While the machinery for financial control was affected by increase in public expenditure, the spending departments did not develop the required financial or cost consciousness. The Planning Commission as well as the Parliamentary Committees emphasized the need for delegating financial powers to the spending departments at the same time making for delegating financial powers to the spending departments at the same time making them cost conscious. The system of external financial advice was retained till 1975 when this system was abolished and a system of integrated Financial Advice was introduced. Since then the responsibility for financial control has been placed on the spending departments. Thus the centralization of the system of financial control of the British India was restructured after Independence and the procedures and tools of financial control underwent great changes but the change is not complete. Still the financial administration is clouded by an atmcspheres of suspicion and distrust as in the day of British rule in India.

Initially, the administrative agency, which controlled the finances for the Government of India, was the Accountant General of Fort William in Bengal. The Accounts Officers of the Presidencies of Madras, Benegal, Bombay and Agra submitted their financial accounts to him. The Finance Secretary of the Finance Department of the British government exercised control. Soon after, attempts were made to separate the Indian accounts from the local accounts of Bengal. Therefore, in 1846, the Secretary to the Government of India in the Finance Department was nominated the Ex-Accountant General of India with powers to supervise and examine Indian accounts. Another important step was the creation of a ge3neral Department of Accounts in place

of separate accounts fro each Presidency. This brought about an integration in the system.

During the Company's rule, revenue was obtained from two sources-land revenue and taxes on trade and personal property. The expenditure was classified into two heads.

i. Security or defense and

ii. Social and development services. The latter comprised education, public health etc.

By far, the most important administrative innovation was the introduction of the budget system vide the Financial Resolution of 7 April 1860. Under this system, the financial estimates for each year were to be arranged, considered and sanctioned by the Government of India before the year commenced. It contained the anticipated income and proposed expenditure of the empire. Under the same resolution, a Central Revenue Department was created in Calcutta to integrate and coordinate the activities of all the revenue authorities. At the same time, an Imperial Audit Department was also set up to examine whether the departments were adhering to the provisions of the budget.

The government was quite keen on reforms is also evident from the creation of reform committees in the field of revenue administration. The Resolution of 1860 provided for the creation of a Budget and Audit Committee. On the committee's recommendations, the posts of the Accountant General and Auditor General were merged into the Accountant and Auditor General. The committee's recommendations also led to the setting up of an Audit Board, which consisted of an Auditor General and the chief of the Military Finance Department. They were to act together in all organizational and policy matters affecting budget estimates, audit and accounts.

Yet another important contribution of the British was the introduction of government paper currency in 1860. The Bank of Bengal became the agent for the printing, issuing and circulation of the notes, Paper notes from Re. One to Rs.1,000 were issued. In 1882, the district treasury was placed under the district collector.

**5.10 Financial Accountably**

A full-fledged and systematic mechanism of control was also evolved in 1919 when the Comptrollers and Auditor General was made responsible to the Central Legislature. In 1926, he was given the power to inspect any government office of account'. In 1922, a Central Public Accounts Committee was created, consisting of both elected and official members, with the Finance Member as its ex-office chairman. It considered the Auditor General's reports on the reexpropriation amounts. Thus, through these two bodies, the Indian Legislature was to exercise control over the administration of public finance. The creation of a Standing Finance Committee with the Finance Member as its chairman was another practical step in the field of control. It has the duties of a Public Estimates Committee. Moreover, Public Accounts Committees were created in each Governor's province.

Under the Act of the Central Legislature of 1934, the Government of India established the Reserve Bank which began to function with effect from I April 1935.

When the East India Company took over the civil administration of the country, its chief concern was collection of revenue. 'Covenanted servants were therefore appointed as supervisors for this purpose in the existing districts. In 1772, the government of Warren Hastings nominated the supervisors as Collectors in the Districts. This was by no means an innovation as generally thought, because the Mughals too had appointed the Amil or Amalguzar for the purpose of revenue administration. For a few years, up till 1786, the post of the Collector remained in an experimental state. Naib Diwans and Baibs assisted him in his work.

The Board of Revenue, created in 1781, became the controlling authority fro revenue purposes. The Board, consisting of a certain number of civil servants,, acted as a link between the government and the Collectors. In 1829, Divisional Commissioners were appointed to supervise the Collectors, in four to five districts, in the exercise of their powers. They were made responsible to the Board of Revenue.

### 5.11 Meaning of Budget

CYP Question.
3.Define Budget Explain the fundamental characteristic s of Budget

The term Budget is derived from the French word 'Boug • ich means a leather bag. The Finance Minister of England is known as Chancenor of Exchequer. The Chancellor of Exchequer used to carry a leather bag containing the files relating to the estimates of revenue and expenditure for the ensuing year to present before the Parliament. In course of time the Budget did not refer to the leather bag. Rather it referred to the files relating to the estimates of revenue and expenditure for the ensuing year. Thus in England Budget means the estimates of revenue and expenditure for one year. In India Budget is called as Annual Financial Statement.

### 5.12 Principles of Budget

Budget is a very important document . It has to be very carefully prepared. The scholars of Public Financial Administration view that Budget should be prepared on ten important principles. They are:

1. Balanced Budget.
2. Cash Budget,
3. Exactness.
4. Rule of lapse.
5. Annularity of the Budget.
6. Single Budget
7. The chief executive should be made responsible fro the preparation of the Budget
8. Budget should be prepared on gross income basis and not on Net income basis.
9. Forms of Accounts should correspond to the forms of Budget estimates and
10. Revenue and capital parts of the Budget should be kept separate.

**5.13 Balanced Budget**

Budget should be a balanced Budget. It should be neither a surplus Budget, not a defect Budget. If income shown in a Budget is more an expenditure less,, it is called surplus Budget. If income shown in a Budget is less and expenditure more, it is called deficit Budget. If a country prepares a surplus Budget, it means all the available resources are not properly utilized. If a country prepares deficit Budget, for lack of funds, some of the programmes, which have to be completed, cannot be competed for want of sufficiency funds. Therefore, Budget should be neither a surplus Budget, not a deficit Budget, it should be a balanced Budget. A Budget is called balanced when the amounts of expenditure and revenue in the Budget are equal or nearly so.

**5.14 Cash Basis**

The Budget should be prepared on the basis of the actual amount the Government could receive and not on anticipated in come. If the Budget is prepared on anticipated in-come and the anticipated income is forth coming, then some of the programmes which have to be completed cannot be completed for want of funds. Therefore, the Budget should be prepared on the actual amount the Government could receive.

**5.15 Exactness**

The amount allocated to the various programmes in the Budget should be as exactly as possible. It should be neither more nor less. If the amount allocated is more in a particular programme, the excess amount cannot be transferred and spent on other programmes. Thus, the excess amount becomes waste. If the amount allocated is less in a programme in the Budget estimates, for lack of sufficient funds, the programme cannot be completed. Therefore, the amount allocated to the various programme should be as exactly as possible.

**5.16 Rule of Lapse**

The unspent amount within the financial year should be allowed to lapse and it should not be carried over to the next year to complete the unfinished programme. If it

is carried over to the next year. the amount allocated in the previous year could not be sufficient to complete the unfinished programme because of the increase in prices of the various commodities in the next year. Therefore, if a programme is not completed a fresh allocation should be made in the Budget estimates to complete the programme in the next year. Further, if the unspent amount is carried over to the next year. accounting and auditing also could become difficult. Therefore, the unspent mount in the financial year should be allowed to lapse and should not be carried over to the next year.

**5.17 Annularity of the Budget**

The Budget should be prepared for only one year If should not be prepared for more than one year If the Budget is prepared for more than one year and prices of things go up beyond anticipation in the second or third years, some of the programmes which have to be completed the second and third years will not be able to be completed for want of sufficient funds. Therefore, budget should be prepared for one year only.

**5.18 Single Budget**

There should be only one Budget for the entire country. If there is only one Budget for the entire country, the funds available with the country could be made use of on the basis of priorities of the problems and there by overall development can be brought about in the country. In India we have two kinds of Budget at the centre. They are:

1. The General Budget and
2. Railway Budget,

These two kinds of Budget do not allow the country to make use of the funds on the basis of priorities of the problems. Therefore, there is lopsided development in our country. In order to have overall development in the country, there should be only one Budget for the entire country.

**5.19 The Chief Executive should he made responsible for the preparation of Budget**

The Chief Executive in India is the President. He should be made responsible for the preparation of the Budget. But he is only nominal head. The real head on financial matters is the Finance Minister. The Finance Minister should be made responsible for the preparation of the Budget. Because the Finance Minister knows the overall financial position in the country and the overall problems the country faces. He could be able to allocate funds on the basis of the priorities of problems and could be able to bring about all round development in the country Therefore, the Finance Minister should be made responsible for the preparation of the Budget. In India the Finance Minister on behalf of the President is responsible for the preparation of the Budget.

**5.20 Principle for preparation of Budget**

If the Budget is prepared on the gross income basis, the Government can have control over the entire finances of the country. If the Budget is prepared on the net income basis, the Government cannot have control over the finances between gross and net income. Therefore, in order to have control over the entire finances of the country, the Budget should be prepared on gross income basis and not on net income basis.

**5.21 Forms of account**

Every Department maintains accounts. The forms of accounts maintained by the different Departments should correspond to the forms of estimates. If they do not correspond with each other's, auditing could become a problem. In order to ease the problem of auditing the forms of accounts maintained by the Government Departments should correspond to the forms of Budget estimates.

**5.22 Separation of Revenue and Capital**

Revenue parts of the Budget are prepared for one year and amount allocated in the revenue parts of the Budget should be spent within the financial year. The capital

parts of the Budget are prepared for a number of years and for the creation of assets. If both revenue and capital parts of the Budget are not kept separate, accounting and auditing could become a problem. In order to ease the problem of accounting and auditing, the revenue and the capital part of the Budget should be kept separate.

**5.23 Summary**

Finance is the soul matter of the governmental machinery. So, each and every proceedings on the financial matter takes much important marks on the development of the country. A full fledged and systematic mechanism of control was a raised in the earlies of the $20^{th}$ century. The creation of various controlling agencies benefited in the effective utilization of rare and scarce financial resources. Since Budget is a very in portent document, it has to be prepare under close watch and carefully.

**5.24 key words**

(I) Mixed Economy
(II) Welfare State
(III) Budget estimates
(IV) Kosa
(V) Mustanfi
(VI) Governing Corporation
(VII) Bougette

**5.26 Books for Further Reading**

1. Administration of India / SR Maheshwar Macillan India Ltd.,
2. Speeches and Writings of G.V. Mavalankar, Speech to Public Accounts Committee, p.97.
3. Article 148(3) and 149 of the Indian Constitution.
4. Administrative Reforms Commission: Report on Finance, Accounts and Audit.
5. Asok Chanda, op.cit., p.249.

**5.25 Answer for CYP Question:**

For Question No.1 – Refer Section No.5.1
Question No.2 – Refer Section No.5.5
Question No.3 – Refer Section No.

**5.27 Model Question**

(A) Write an essay on the area of Public financial Administration.

(B) Trace out the historical growth of public financial administration is our country.

(C) Define Budget – Explain the fundamental Characteristics of Budget.

# UNIT- 6

# BUDGET

**Introduction :**

Financial administration is an important facet of Public Administration. It operates through the instrument of Budget and encompasses the entire budgetary cycle, that is, formulation of budget, enactment of budget, execution of budget, accounting and auditing. According to C.P. Bhambhri, "the term was used in its present sense for the first time in 1773, in a satire entitled 'opening the budget' directed against Walpole's financial plan for the year.

**Objectives :**

Ensures economy in government expenditure.

Helps general discussion about the budget.

Regulate the implementation of the budget.

Various grants of the government

Identify the resources in conformity with both policies and fiscal targets.

**Structure :**

Introduction

Preparation of Budget

Various stages involved in the preparation of the Budget

Enactment of the Budget

Passing of Appropriation and Finance Bill

Execution of the Budget

Summary

Key Words

Books for further Reading

Answer for CYP Questions

Model Questions.

## 6.1 Introduction

The 'Annual Financial Statement,' laid before both the Houses of Parliament constitutes the Budget of the Union Government. This statement takes into account a period of one financial year commences in India on 1rst April each year. The statement embodies the estimated receipts and expenditure of the Government of India for the financial year. According to C.P. Bhambhri, "the term was used in its present sense for the first time in 1773, in a satire entitled 'opening the budget' directed against Walpole's financial plan for the year.

## 6.2. Preparation of Budget

6.2.1 There are four phases of Budgeting.

They are

1. Preparation of the Budget.
2. Enactment of the Budget.
3. Execution of the Budget and
4. Accounting, Auditing and control over the Budget.

Let us discuss in this lesson about the preparation of the Budget.

Four different organs are involved in the preparation of the Budget.

1. The Finance Ministry.
2. The Administrative Ministries.
3. The Planning Commission and
4. The Comptroller and Auditor General

The Finance Ministry has the over all responsibility for the preparation of the Budget. It also provides the required leadership and direction.

The Administrative Ministries have detailed knowledge of administrative requirements.

The Planning Commission facilitates the incorporation of the plan priority in the Budget. In other words, the Finance Ministry remains in close touch with the Planning Commission in order incorporate the plan priorities in. The Budget The Comptroller and Auditor General of India provides the Accounting skills which are necessary for the preparation of the Budget Estimates.

### 6.3 Various stages involved in the preparation of the Budget

There are various stages in the preparation of the Budget. They are:

1. Preparation of estimates by the Disbursing Officers.
2. Scrutiny and Consolidation of Estimates by the Department and Ministries.
3. Scrutiny by the Finance Ministry.
4. Settlement of Disputes,
5. Consolidation by the Finance Ministry, and
6. Approval by the Cabinet.

### 6.4 Preparation of Estimates by the Disbursing Officers:-

The financial year in India starts on April 1, and ends on 31st March. The Budget should have been enacted before 31st of March. If the Budget has to be enacted before the 31st of March, then the preparation of the Budget should start about six months before the end of the financial year. Thus, the preparation of the Budget in India starts during the Month of September. As a first step in the preparation of the Budget; the Finance Ministry dispatches the forms of Budget estimates to the Head of the Administrative Ministries. The Administrative Ministries in turn pass on these forms to the Disbursing

Officers. The Disbursing Officers prepare the preliminary Budget. Budget forms contain six columns. They are.

1. Actual figures of the previous three years.
2. Sanctioned Budget estimates for the current year
3. Revised estimates of the current year,
4. Proposed estimates for the next year,
5. Actual of the current year available, and
6. Amount for the corresponding periods of the previous year.

The information provided in the Budget forms enable the Disbursing officers to prepare the preliminary Budget estimates without difficulty.

### 6.5 Scrutiny and Consolidation of Estimates by the Departments and Ministries

The Heads of the Departments receive the preliminary Budget estimates prepared by the Disbursing Officers. They scrutinize and consolidate them for the entire Department and submit them to the Administrative Ministry. The Administrative Ministry scrutinizes the Budget estimates prepared by the different Departments in the light of the general policy of the Government and submits them to the Finance Ministry.

### 6.6 Scrutiny by the Finance Ministry:-

The Finance Ministry is given the power to scrutinize the Budget estimates prepared by the Administrative Ministries to bring about economy and efficiency in the public expenditure. There are three types of expenditures involved. They are:

1. Recurring expenditure.
2. Expenditure on ongoing schemes and
3. Expenditure on new schemes.

The Finance Ministry does not scrutinize and make changes in the recurring expenditure. It scrutinizes and makes abrupt cuts on ongoing schemes and new schemes and approves the expenditure of the Administrative Ministries.

**6.7 Settlement of Disputes:**

If there is a difference of opinion between the Finance Ministry and the Administrative Ministries, the Administrative Ministries will refer the Budget estimates to the Cabinet. The Decision of the Cabinet is final in the regard.

**6.8 Consolidation by the Finance Ministry:-**

The Finance Ministry consolidates the Budget estimates on the expenditure side. Based on the estimated expenditure the Finance Ministry prepares the estimates of revenue in consultation with Central Board of Direct Taxes and the Central Board of Indirect Taxes.

**6.9 Approval by the Cabinet :**

The Finance Ministry places the consolidated Budget before the Cabinet. Once the Cabinet has approved the Budget estimates submitted by the Finance Ministry, the preparation of the Budget is over.

## 6.10 ENACTMENT OF THE BUDGET

There are different stages in the enactment of the Budget. They are.

1. Presentation of the Budget,
2. General Discussion,
3. Voting on Demands for Grants,
4. Passing of Appropriation Bill and
5. Passing of Finance Bill

Let us discuss in this lesson the various stages in the enactment of the Budget.

### 6.11 Presentation of the Budget

On the last working day of February the Finance Minister of India presents the General Budget on behalf of the President of India. As soon as the Budget is presented, the Finance Minister makes a speech. This speech is known as the Budget speech. In the Budget speech the Finance Minister explains how the Budget speech in the Lok Sabha, the Budget is laid before the Rajya Sabha, which can only discuss it and has no power to vote on the demand for grants. The Finance Minister also presents to the Lok Sabha a number of documents along with the Budget. They are.

1. An explanatory memorandum on the Budget
2. An Appropriation
3. A Finance Bill containing the taxation proposals,
4. Annual reports of the Ministries and
5. Economic classification of the Budget

## 6.12 General Discussion.

The General Discussion on the Budget usually begins a week after the presentation of the Budget. It takes place in both the Houses of the Parliament and lasts for 3 to 4 days. During the General discussion the Lok Sabha can discuss the Budget as a whole or on any questions of a principle involved therein. But no motion shall be moved nor shall the Budget be submitted to the vote of the House.

## 6.13 Scrutiny and Consolidation of Estimates by the Departments and Ministries

The Heads of the Department receive the preliminary Budget estimates prepared by the Disbursing Officers. They Scrutinize and consolidate them for the entire Department and submit them to the Administrative Ministry. The Administrative Ministry scrutinizes the Budget estimates prepared by the different Departments in the light of the general policy of the Government and submits them to the Finance Ministry.

## 6.14 Scrutiny by the Finance Ministry :-

The Finance Ministry is given the power to scrutinize the Budget estimates prepared by the Administrative Ministries to bring about economy and efficiency in the Public expenditure. There are three types of expenditure involved. They are.

1. Recurring expenditure
2. Expenditure on ongoing schemes and
3. Expenditure on new schemes

The Finance Ministry does not scrutinize and make changes in the recurring expenditure. It scrutinizes and makes abrupt cuts on ongoing schemes and new schemes and approves the expenditure of the Administrative Ministries.

**6.15 Scrutiny by the Finance Ministry**

The Finance Ministry is given the power to scrutinize the Budget estimates prepared by the Administrative Ministries to bring about economy and efficiency in the public expenditure. There are three types of expenditure involved. They are.

1. Recurring expenditure.
2. Expenditure on going schemes and
3. Expenditure on new schemes

The Finance Ministry does not scrutinize and make changes in the recurring expenditure. It scrutinizes and makes abrupt cuts on ongoing schemes and new schemes and approves and approves the expenditure of the Administrative Ministries.

**6.16 Settlement of Disputes :**

If there is a difference of opinion between the Finance Ministry and the Administrative Ministries, the Administrative Ministries will refer the Budget estimates to the Cabinet. The Decision of the Cabinet is final in this regard.

**6.17 Consolidation by the Finance Ministry:-**

The Finance Ministry consolidates the Budget estimates on the expenditure side. Based on the estimated expenditure the Finance Ministry prepares the estimates of revenue in consultation with the Central Board of Direct Taxes and the Central Board of Indirect Taxes.

**6.18 Approval by the Cabinet**

The Finance Ministry places the consolidated Budget before the Cabinet. Once the Cabinet has approved the Budget estimates submitted by the Finance Ministry, the preparation of the Budget is over.

**6.19 Voting on Demands for Grants:-**

**CPY Question**

6. How the Finance Ministry Consolidated the Budget?

After the General discussion on Budget is over, the Lok Sabha takes up voting on demands for grants. The Demands are presented Ministry wise. The demand becomes a grant after it has been duly voted. During Voting on Demands for grants, there used to be discussion, criticisms, and reply before a demand is voted for grant. The general Budget has totally one of 109 demands (103 for civil expenditure and 6 for defense expenditure). The Lok Sabha votes each demand separately. During voting on demands, the Members of the Parliament can move three kinds cut of motions, they are:

1. Policy cut motion,
2. Economy cut motion and
3. Token cut motion

Policy cut motion is moved to represent the disapproval of the policy underlying the demand. It states that the amount of the demand be reduced to Re.6.

Economy cut motion is moved to bring about economy in expenditure. This motion states that the amount of demand be reduced by a specified amount.

Token cut motion can be moved by the Members of the Parliament to ventilate a specific grievance, which is within the sphere of responsibility of the Government of India. It states that the amount of the demand be reduced by Rs. 100.

During voting on demands for grants, the Members of the Parliament can also ask for half and hour discussion.

If the Speaker allows the Members of the Parliament to move cut motions and half an hour discussion, all the 109 demands cannot be voted within 26 days which are allotted for the voting on demands for grants. Under such circumstances the Speaker puts all the remaining demands together and puts to vote without any discussion. This practice is called Guillotine.

In order to avoid the practice of Guillotine and to enable the Members to have discussion criticisms and reply before voting on demands for grants, the British Government introduced Vote on Account System. The purpose of Voting on Account is to allow the Government to spend and to raise funds by the Parliament on certain accounts approved by it. In India though vote on account system is practiced, it is not to avoid the practice of Guillotine. Whenever the Government is unable to pass the Budget in time, the Parliament passes the Vote on Account and not avoids the practice of Guillotine.

**6.20 Passing of Appropriation Bill:**

The Constitution states, "No money shall be withdrawn from the Consolidated Fund of India except under appropriation made by Law" Accordingly, an Appropriation Bill is introduced to provide for the appropriation out of the consolidated Fund of India all money required to meet.

1. The grants voted by Lok Sabha
2. The expenditure charged on the Consolidated Fund of India.

No such amendment can be proposed to the Appropriation Bill in either House of the Parliament, which will have the effect of varying the amount, or altering the destination of any grant voted, or of varying the amount of any expenditure charged on the Consolidated Fund of India.

After Voting on Demands for grants, the speaker introduces the Appropriation Bill in the Lok Sabha. This Bill is passed in the Lok Sabha in five stages and in three readings. As soon as the Appropriation Bill is passed in Lok Sabha, the Speaker certifies the Bill as Money Bill. Once the speaker has certifies a Bill as a Money Bill the Rajya Sabha should pass the Bill within fourteen days in five stages and three readings. If Rajya Sabha fails to pass the Bill within fourteen days, on the fifteenth day it is sent to the President for signature. Once the President has signed the Bill, The Appropriation Bill becomes the Appropriation Act. By passing this Act, the Parliament allows the Administration Ministries to spend on various programmes approved by the Parliament.

### 6.21 Passing of Finance Bill

Under Rule 219 of the Lok Sabha, the 'Finance Bill' means the Bill ordinarily introduced in each year to give effect to the financial proposals of the Government of India for the next following financial year, and includes a Bill to give effect to supplementary financial proposals for any period. Like the Appropriation Bill, The Finance Bill also introduced by the Speaker in the Lok Sabha. It is passed in five stages and three readings. As soon as the Finance Bill is passed in the Lok Sabha the Speaker certifies the Bill as Money Bill. Once the Speaker has certified the Bill, as Money Bill the Rajya Sabha should pass the Bill within fourteen days. If it does not pass the Bill within fourteen days, on the fifteenth day the Bill is sent to the President for signature. Once the Bill is signed by the President, it becomes the Finance Act. By passing the Finance Bill into the Finance Act, the Parliament allows the Government to raise funds through various sources as approved by the Parliament.

Once the Appropriation Bill and the Finance Bill are passed the Budget is enacted.

### 6.22 Other Grants :-

The Parliament is also authorized to provide various other Grants under extraordinary or special circumstances. These Grants include:

**CYP Question**
2. What is the finance bill?

1. Supplementary Grant
2. Additional Grant
3. Excess Grant
4. Vote of Credit
5. Exceptional Grant and
6. Token Grant

Supplementary Grant is granted when the amount authorized by the Parliament through the Appropriation Act for a particular service for the current financial year is found to be insufficient for the purpose of that year.

Additional Grant is granted when a need has arisen during the current financial year for additional expenditure upon some new service not contemplated in the Budget for that year.

Excess Grant is granted when money has been spent on any service during a financial year in excess of the amount granted for that service in the Budget for the year. The Lok Sabha votes it after the financial year. Before the demands for excess grants are submitted to the Lok Sabha for voting, the Public Accounts Committee of Parliament must approve them.

Vote of credit is granted for meeting an unexpected demand upon the resources of India, when on account of the magnitude or the indefinite character of the service the demand cannot be stated with the details ordinarily given in a Budget. Hence, it is like a blank cheque given to the Executive by the Lok Sabha.Exceptional Grant is granted for a special purpose and forms no part of the current service of any financial year.

Token Grant is granted when funds to meet the proposed expenditure on a new service can be made available by reappropriation. A demand for the grant of a token sum is submitted to the vote of the Lok Sabha and it is assented funds is made available.

Supplementary, Additional, Excess and Exception grants and vote of credit are regulated by the same procedure, which is applicable in the case of a regular Budget.

## 6.23 EXECUTION OF THE BUDGET

6.4. Once the Parliament has enacted the Budget, it approves the Government to collect revenue as authorized by the Finance Act and to spend the Grants as authorized by the Appropriation Act. The execution of the Budget involves a number of operations. They are.

1. Assessment of Funds.
2. Collection of Funds.
3. Custody of Funds and
4. Disbursement of Funds

### 6.24 Assessment of Funds

Assessment means the act of determining as to how much amounts is to be collected form different individuals and associations in terms of the authority given by the Legislative assessment Therefore, it involves the preparation of a list of persons liable to pay the tax and also determining how much each has to pay according to the prescribed rates. The Executive has to devise a suitable machinery and procedure for , assessing the amount that is due to the Government form a n individual or an association.

### 6.25 Collection of Funds:

Having made the necessary adjustment.. The Officers of the Government proceed to collect the amount due to the Government. The mode of collection varies according to the nature of the tax. In certain cases, for example, of customs, payment has to be made on the spot. In others, bills may be sent to the assessed and he may be asked to pay the amount in the nears treasury. I some cases deduction of the tax may be made at the source as is done in the case of income tax, which is deducted form the pay of the salaried employees. Lastly, in some cases the agents or officials of the Government

may approach the taxpayer directly and demand payment form him and the collections thus made may be deposited in the treasury.

It is debatable whether the tasks of assessment and collection of revenue should be entrusted to the same officials or to different sets of officials. The protagonists of the former view, that there would be more of honesty and fair play under the system. It will ensure greater control over collection of money. It will also facilitate the work of audit, because when the same service has the duty of assessing and collecting the taxes, it becomes easy to check one of theses operations against the other. But the system is criticized because the two activities are different in nature and hence need different forms of organization. Moreover, if the same officials are to do both the jobs they shall be heavily burdened. The system of two independent service is also objectionable because such a system will be more expensive and it shall involve unnecessary duplication of records etc., it will therefore, be appreciated if both the functions are concentrated in a single service, with two different sections to deal with the two phases of problem as is done in India wherein the Center as well as in the States, there is a Revenue Department under the Charge of Finance Minister. There are also Boards under the Minister and they carry on the functions of assessment, supervision of collection and adjudication of revenue disputes.

**6.26 Custody of Funds :**

All revenue bills that is collected has to be placed in safe custody. In the past huge stocks of public money were deposited in the Treasury in specially constructed strong rooms. But with development of the Banking system there is little need for the Government to keep treasury for the custody of its funds. Moreover, it is not necessary to carry on all the financial transaction through cash money as these can be done trough cheques. The Payment by the Cheques minimizes the chances of foul play and embezzlement. In most countries, the Central Bank carries all the money

**CYP Question**
3. Examine the Custody of Funds

transactions on behalf of the Government, as does the Bank of England in London. But in a country like India where the Banking facilities are not adequate, it is not possible to have such a Centralized system for receiving money and for making payments on behalf of the Government. The Reserve Bank of India and where it has no branch, the State Bank of India conducts the treasury business of the Government. But since the branches of these Banks do not yet exist at all places, the Government has to maintain sub treasuries and district treasuries.

**6.27 Disbursement of Funds :**

Disbursement is the process of withdrawal of money from the treasury for payments of various liabilities. Every care should be taken in the work of disbursement against illegal and inaccurate withdrawals or payments. Particular control is, therefore,, exercised by the Ministry of Finance over expenditure. The legislature makes the grants to the Government as a whole, technically to the President and not to Individual Departments. The Ministry of Finance designates the Head of each Administrative Department as controlling Officer in respect of the expenditure occurring in his Department. These Officers in turn allocate grants to the Disbursing Officers. Heads of Offices working under them the work of communicating grants to the controlling and Disbursing Officers is taken up immediately after the enactment of the Budget. Expenditure against appropriation is controlled by dividing grants into primary units of Appropriation, for example, the pay of officers, establishment, contingencies etc., The basic unit of expenditure control is the sub-head. The Disbursing Officer alone can withdraw money form the treasury. A great responsibility falls on him. He has to satisfy himself before withdrawing the money that the expenditure has been sanctioned by a general or special order of the authority competent to sanctioned by a general or special order of the authority competent to sanction such expenditure and that the expenditure to be incurred is within the limits of the appropriation granted by the Legislature. He has also to keep the accounts of the various

transactions and to make a report about them to the Head Department and to the Accountant General. The while making the payments. He has to see whether the warrants of payments, the keep a record of all receipts and payments. The power of control of expenditure of the Head of Department is not finished with allocation of money accounts to the controlling officers. He exercises continuous control over the expenditure in his Department. The Disbursing Officers are required to submit monthly accounts to the controlling officers departments. The controlling officer get these accounts classified and consolidated under the various sub-heads and can thus get an accurate and up-to-date picture of the financial position of his Department as a whole. He also sends a copy of these accounts is reconciled with those of the Accountant General on the basis of fortnightly accounts received by him from the treasuries. All this enables the controlling officers to watch the flow of expenditure in his Department against the budgetary grants and to apply the necessary control over extravagance or carelessness.

It may be noted that the controlling Officers are sometimes authorized by the Finance Department to allow reappropriations from one minor head to another minor head. But the Finance Department can allow reappropriations from one major head to another major head or to a wholly new head only with the approval of the Legislature, which has to be taken by way of supplementary grants.

**6.28 Summary :**

This unit deals with legalize the receipts and expenditure of the government. This means that the government can neither collect money nor spend money without the enactment of the budget. Both the General and the railway budget are governed by the same procedure. 'Execution of budget' means the enforcement or implementation of the Appropriation Act dealing with the expenditure and Finance Act dealing with the revenue. The budget is executed by various administrative ministries/departments under the overall

control and direction of the Finance Ministry. In other words, the overall responsibility regarding the execution of the budget lies with the Finance Ministry – the central financial agency of the Government of India

**6.29 Key Words :**

Revenue, Expenditure, Budget, OMB, Treasury

**6.31 Books for further Reading:**


(i) Aricle 151 of the Indian Constitution

(ii) Kautilya, Arthashastra (Translated by R. Shamasastry.), Mysore, Raghuveer Printing Press, 1956, Chapter VIII, p.65.

(iii) Dr. Shri Ram Maheshwari and Dr. Amreshwar Avasthi, Public Administration, Lakshmi Narain Agarwarl, Agra 1962, revised 2002.


**6.30 Answers for CYP Question:**

For Question No.1 --- Refer Section No. 6.2.6

Question No.2 --- Refer Section No. 6.3.5

Question No.3 --- Refer Section No. 6.4.3

**6.32 Model Question:**

1. Explain how the budget is prepared.
2. Explain how the budget is enacted.
3. Examine the budget execution.

# UNIT - 7
# MINISTRY OF FINANCE

## Introduction

Finance Ministry has the overall responsibility for the formulation, enactment and execution of the Budget . Therefore, it is necessary to understand the organization and the functions of the Finance Ministry. Finance Ministry besides assisting the Finance Ministry in the discharge of his functions is also responsible for carrying out a number of functions viz., responsible for the administration of the Central finances, administers the direct and indirect taxes, responsible to raise requisite finances for the Central Government, shapes the taxation policy of the Central Government. The office of Management and budget is the central financial agency is USA. The Bureau of budget at present in America is called the office of Management and Budget (OMB). In Britain, treasury is the Central Financial Agency. It was first commissioned in 1612. Lords Commissioners are the nominal heads of the treasury. Prime Minister is Lord of the Treasury and second Lord of Treasury is Chancellor of the Exchequer and five Junior Lords.

## Objectives :

- Functions of the Finance Ministry
- Funds disbursement
- Office of Management and Budget(OMB)
- American budgetary system.
- Performance of the treasury in Britain Administration.

## Structure

Introduction

Ministry of Finance

Origin and Growth of the Finance Ministry

Functions of the Finance Ministry

The Office of a Management and Budget
American Budgetary System
Treasury
British Budgetary System
Summary
Key Words
Answer for CYP Questions
Books for Further Readings
Model Questions

**7.1 Introduction**

Finance Ministry has the overall responsibility for the formulation, enactment and execution of the Budget . Therefore, it is necessary to understand the organization and the functions of the Finance Ministry. Finance Ministry besides assisting the Finance Ministry in the discharge of his functions is also responsible for carrying out a number of functions viz., responsible for the administration of the Central finances, administers the direct and indirect taxes, responsible to raise requisite finances for the Central Government, shapes the taxation policy of the Central Government. The office of Management and budget is the central financial agency is USA. The Bureau of budget at present in America is called the office of Management and Budget (OMB). In Britain, treasury is the Central Financial Agency. It was first commissioned in 1612. Lords Commissioners are the nominal heads of the treasury. Prime Minister is Lord of the Treasury and second Lord of Treasury is Chancellor of the Exchequer and five Junior Lords.

**7.2 Origin and Growth of the Finance Ministry**

The British Government in India constituted the Department of finance in 1810. A Joint Secretary was made in charge of the Finance Department. In 1843, the Department of Finance was made a full – fledged Department and a separate Finance Secretary was appointed as a Head of the Department. From 1810 to 1946 the British Officers headed the Finance Department. After India became independent in 1947, the name of the Finance

Department was changed to Finance Ministry. From 1947 to till date there have been 2 to 4 Departments under the Finance Ministry. At present there are three Department in the Finance Ministry.

The president of India is the Chief Executive head of the State. Therefore,, he is responsible for the preparation, enactment and execution of the Budget. But in India the President is only a nominal head. The real political head on financial matters is the Finance Minister.

As the real political head of the Finance Ministry, the Finance Minister has three important responsibilities. They are:

1. To make policies on financial matters.
2. To supervise and control the implementation of financial policies and
3. To answer to the questions put by the Members of the Parliament for lapses in the Finance Ministry.

The Finance Minister is only a lay person. He comes and goes. The Prime Minister can also change his portfolio. He can remain as the Finance Minister so long as his party is in power. Because of these reasons, he may not be able to discharge his three responsibilities without the assistance of the Government officials. In the Secretariat, the Finance Ministry has been created to assist the Finance Minister in the discharge of his responsibilities. A General Secretary heads the Finance Ministry in the Secretariat. The Finance Ministry is divided into three Departments.

There are :

1. Department of Revenue and Banking
2. Department of Expenditure
3. Department of Economic Affairs and

Three Secretaries head these three Departments.

The Department of Expenditure is divided into six Divisions.

There are:

1. Establishment Division
2. Defense Division
3. Cost Accounts Division
4. Plan Finance Division
5. Special Cell and
6. Bureau of Public Enterprises.

These Divisions are Headed by Joint Secretaries and assisted by Deputy Secretaries, Assistant Secretaries, Section Officers, Assistance, Junior Assistants, Typists and Peons.

The Department of Economic Affairs is divided into six Divisions. They are:

1. Budget Division,
2. Internal Finance Division,
3. External Finance Division,
4. Economic Division,.
5. Administrative Division and
6. Insurance Division

These Divisions are also headed by Joint Secretaries and assisted by a number of Officers such as Deputy Secretaries etc.,

The Department of Revenue and Banking is divided into two Divisions. They are:

1. Revenue Division and
2. Banking Division

These Divisions are also headed by Joint Secretaries and assisted by a number of Officers.

Under the three Secretariat Department which form part of Finance Ministry, there are number of Executive Departments, Attached Offices and Subordinate Offices headed

by a Director or Commissioner and assisted by a number of Executive Officers. These Executive Department Attached Offices and Subordinate Offices help in carrying out the functions of the Finance Ministry. For example there are two Directories in the Revenue and Banking Department. These two Directorates are.

1. Central Directorate of Direct Taxes and
2. Central Directorate of Indirect Taxes.

Commissioners head these Directorates. 'Additional Commissioners, Joint Commissioners, Deputy Commissioners. Assistant Commissioners, Inspectors, Superintendents, Assistants, Junior Assistants. Typist and Peons assist the Commissioners. These Directorates actually involve in the collection of revenue.

### 7.3 Functions of the Finance Ministry

**CYP Question**
7.Examine the origin and functions of Finance Ministry

The Finance Ministry besides, assisting the Finance Minister in the discharge of his functions is also responsible for carrying out a number of functions. They are:

1. It is responsible for the administration of the Central Finances.
2. It administers the direct and indirect taxes.
3. It is responsible to raise requisite finances for the Central Government
4. It shapes the taxation policy of the Central Government.
5. It regulates Government borrowing policies.
6. It administers financial rules and regulations.
7. It decides the delegation of financial power to the different Administrative Ministries.
8. It scrutinizes the financial proposals prepared by the Administrative Ministries.
9. It controls the entire expenditure of the Government
10. It attends to matters relating to Banking, Insurance, Currency and Coinage.

### 7.4 Evaluation of Finance Ministry:

As it has been already mentioned the Finance Ministry plays a very important role in the preparation, enactment and execution of the Budget.

The Finance Ministry is given the power to scrutinize the Budget estimates prepared by the Administrative Ministries to bring about economy and efficiency in expenditure. The Finance Ministry quite often misuses its powers by making abrupt cuts in on going schemes and new schemes. Anticipating the cuts, the Administrative Ministries have to prepare the Budget estimates on exaggerated amount and after cuts by the Finance Ministry, they have top prepare another Budget estimates. The unnecessary interference by the Finance Ministry over the Administrative Ministries have increased and real efficiency, the work economy are not brought about. Therefore, the Finance Ministry if at all wants to make certain changes in the Budget estimates prepared by the Administrative Ministries it should do it in consultation with the concerned heads of Administrative Ministries. Certainly some type of control is necessary by the Finance Ministry over the Administrative Ministries. But this control should not be to interface the working of Administrative Ministries.

## THE OFFICE OF A MANAGEMENT AND BUDGET

### 7.5 American Budgetary System :

The Bureau of Budget at present in America is called the Office of Management and Budget OMB). The Office of Management and Budget is the central financial agency in USA. It is responsible for the preparation and administration of budget. It was set up in 1970 by an executive order to replace the Bureau of Budget and Accounting Act of 1927. It is a part of the Executive Office of the President (EOP). It is the President's major staff agency in the financial management. It is headed by a Director who is appointed by the President with the approval of the Senate.

**CYP Question**
2. Write an essay on Office Manageme nt and Budget

If USA, there is a Department of Treasury also. It is concerned with the custody of public funds and not with the budgetary control. Hence, the American Treasury is different from the Indian Finance Ministry or British Treasury, which are concerned with both the custody of public funds and the budgetary control. It is one of the original departments established in 1789. A Secretary with a cabined rank heads it.

Following other points can be noted with regard to the budgetary system or financial administration in USA.

1. Unlike India. USA has the system of single budget, that is, one budget for all the departments.
2. Unlike in Britain and India, the financial year in USA begins on $1^{st}$ July and ends on 30 June of the following year.
3. The preparation of budget estimates begins in all the departments in the summer. The OMB receives these estimates in the middle of September.
4. The President presents the budget to the House of Representatives in the middle of January.
5. Unlike in India and Britain, there is no budget speech in USA. The American executive is not represented in the Congress on account of the doctrine of separation of powers.
6. The House of Representatives refers the Budget to the Committee on Appropriations. This Committee divides itself into sub-committees (on departmental lines) for detailed examination of estimates.
7. The appropriation bills, after the House of Representatives pass them, are sent to the Senate, which also refer them to its Committee on Appropriations. A Conference Committee consisting of the Members of both House of Representatives and Senate is constituted to resolve the difference between the two over the estimates.
8. The Ways and Means Committee in the House of Representatives and Finance Committee in the Senate also consider the revenue measures. Here also, the difference are resolved in the Conference Committee.

9. Every member of the Congress, due to local pressures, tries to get maximum share for his constituency. Hence, they cooperate with one another and support each other's cause in their struggle for greater share of the funds. This is known as 'pork barrel' and 'log rolling', which implies funds in the Treasury and mutual support respectively. This Could Spoil the budgetary estimates prepared by the departments and consolidated by the OMB. It is a unique feature or the American budgetary process.
10. Unlike the Indian Parliament or British Parliament, the American Congress can grant, refuse, or reduce estimates but can also increase them. Hence, the Executive is not always sure about the shape to be given to the budget by the Congress.
11. Unlike in India or Britain, the Senate in American possess co-equal powers with the House of Representatives in financial matters. It can accept or reject the financial bills, although they can originate only in the House of Representatives.
12. The American Congress adopts a series of appropriation bills and revenue bills. Hence, the procedure for voting on budgetary estimates is less centralized in the USA than in India and Britain (where a single appropriation bill and a single finance bill is adopted.
13. The appropriation bills and the revenue bills, after both the Houses pass them, are sent to the President who usually signs them.
14. The Budget and Accounting Act of 1921 has created and independent agency called the General Accounting Office (GAO) to control and audit the expenditure of the national government. The Comptroller – General who is appointed by the President with the consent of Senate heads it. His term of office is fifteen years or till he attains the age of Seventy. He is not eligible for the second term. He can be removed only through an impeachment or a joint resolution of congress. He has the power of disallowance of expenditure by the departments. He has great freedom form executive control.

**CYP Question**
3.Explain the Origin and functions of Treasury in England.

**Treasury**

### 7.6 British Budgetary System

Treasury is the ' Central financial agency' in Britain. It supervises and directs the entire financial administration in Britain. It is the British counterpart of Ministry of Finance in India and Office of Management and Budget (OMB) in USA. But it also has an important role in the administration of civil service.

Treasury was first commissioned in 1612. The nominal heads of the Treasury are the Lords Commissioners, viz., First Lord of the Treasury (Prime Minister), Second Lord of the Treasury (Chancellor of the Exchequer) and Five Junior Lords. In practice, the Lords Commissioners never meet as a board and the Chancellor of the Exchequer carries out their responsibilities. In other words, he is the effective ministerial head of the Treasury and is responsible for the financial and economic policy. He is the Finance Minister of Britain.

In 1959, the Plow den Committee was appointed to study the role of Treasury in. the financial administration of Britain. It submitted its report in 1967. Following its recommendation, Treasury was divided into the Finance and Economic side and the Pay and Management side in 1961, The following other point can be noted with regard to the budgetary system of financial administration in Britain.

1. Unlike in India. Britain has the system of single budget that is, one budget for all the departments.
2. Like in India, the financial year in Britain begins on 1st April and ends on 31st March of the following year.
3. The preparation of budgetary estimates begins in all the departments in the first week of October.
4. The Chancellor of Exchequer presents the budget to the House of commons in the middle of February.
5. Since 1968, the House of Commons itself has been dealing with supplies (demands) and revenue, instead of the system of the Committee of the whole house (known as

the Committee of supply and the Committee of ways and means respectively). The age –old principle that financial business should originate in a committee, rather than in the House itself was abandoned. Consequently, the related committees were also abolished. The budget speech and budget debates now take place in the House of Commons itself.

6. The Chancellor of Exchequer makes the budget speech when the revenue part of the budget is introduced in the House of Commons ad not as soon as the budget is laid on the Table of the House. This is contrary to the procedure prevalent in India, where the Finance Minister makes the budget speech as soon as budget is laid on the Table of the Lok Sabha.
7. In Britain, The budget is neither introduced nor discussed in the House of Lords. But in India, the budget is introduced as well as discussed in Rajya Sabha also.
8. The debates on the budgetary estimates in the House of Commons should be concluded within twenty – six days.
9. Like in India, the House of Commons can grant, refuse, or reduce the demands but cannot increase them.
10. The appropriation bill and finance bill, after the House of Commons pass them, are sent to the House of Commons and sent to the Go use of Lords one month before the ending of session, may be submitted to the Royal assent and become law after one month whether passed by the House of Lords or not Thus the House of Lords has practically no authority over the appropriation and finance bills (which are money bills).
11. The Budget reaches the Queen 30 days after the House of Commons pass it. It must be mentioned here that the budget in India reaches President 14 days after the Lok Sabha passes it.
12. The Provisional Collection of Taxes Act of 1913 authorizes the government to collect the proposed new taxes from the date of their announcement in the budget to the date of passing of the Finance Act.,
13. In Britain, the Estimates Committee was first set up in 1912. in 1971, it was replaced by a new Expenditure Committee. In consists of 40 to 50 members and all are drawn form the House of Commons only.

14. In Britain, Gladstone first set up the Public Accounts Committee in 1867. It consists of 15 members and all are drawn from the House of Commons only. Its Chairman hails from the opposition.
15. Britain is the first country to develop an audit of public accounts. The office of the Comptroller and Auditor General was created first by Gladstone in 1866. He is an officer of Parliament. He has two functions.

    (i) As Comptroller, he controls receipts and issue of public money, and

    (ii) As Auditor, he audits departmental accounts and submits his report on this to Parliament. These functions are laid down in the Exchequer and Audit Department Act of 1866 and 1927. His full title is "Comptroller General of the Receipt and Issue of Her Majesty's Exchequer and Auditor-General of Public Accounts". The Crown on te advice of the Cabined appoints him. His term of office is not fixed. The Crown on the recommendation of the Parliament can remove him.
16. The national Economic Development Council (NEDC) was set up in Britain in 1967. It works under the Chairmanship of the Chancellor of the Exchequer or the Prime Minister. It is an important forum-for the deliberations of economic policies and problems.

### 7.7 Summary:

This chapter advocated about the Finance ministry if at all wants to make certain changes in the Budget estimates prepared by the Administrative Ministries it should do it consultation with the concerned heads of the Administrative Ministries. Certainly some type of control is necessary by the Finance Ministry over the Administrative Ministries. But this control should not be to interface the working of administrative ministries. American treasury is different from the Indian Finance Ministry of British Treasury, which are concerned with both custody of public funds and the budgetary control.

**7.8 Key Words:**

Revenue, Expenditure, Budget, OMB, Treasury

**7.10 Books for further Readings:**

(i) Speeches and Writings of G.V. Mavalankar, Speech to Public Accounts Committee, p.97.

(ii) Article 148(3) and 149 of the Indian Constitution.

(iii) Administrative Reforms Commission: Report on Finance, Accounts and Audit.

(iv) Asok Chanda, op.cit., p.249.

**7.9 Answer for CYP Questions:**

For Question No.1 – Refer Section No. 7.2

Question No.2- Refer Section No. 7.4

Question No.3 – Refer Section No.7.5

**7.11 Model Questions::**

7. Examine the origin and functions of Finance Ministry.

2. Write and essay on Office of Management and Budget.

3. Explain the organization and functions of Treasury in England

# UNIT - 8

# AUDIT AND ACCOUNTS

**Introduction :**

In financial administration. the term 'Accounts' is defined as "Statement of facts relating to money or things having money value. "The facts which are incorporated in the records of accounts are called 'transactions' Thus. accounting means keep a systematic record of financial transactions. Audit is an important means of legislative control over financial administration. It is an instrument of enforcing accountability of administration to the legislature. It is a part of external control over administration. Article 148 of the India. He is the head of the Indian Audit and Accounts Department. He is the guardian of public purse and controls the entire financial system of the country at both the levels of the Centre and States. He is one of the bulwarks of the democratic system of government in India.

**Objectives:**

- Make financial records.
- Protect those handling funds
- Evaluate the duties and power of CAG
- The importance of CAG
- The importance of CAG
- Parliamentary control over the Finance
- Analyze the role of Public Accounts Committee

**Structure :**

Introduction

Accounts and Audit

Structure of Accounts

Objectives and Functions of Audit

Difference between Auditing and Accounting

Comptroller and Auditor General of India

Criticism of Indian Audit System

Parliament Control over Finance

Estimates Committee

Public Accounts Committee

The Committee on Public Undertakings

Summary

Key Words

Books for Further Reading

Answer for CYP Questions

Model Questions

**8.1 Introduction :**

In financial administration, the term 'Accounts' is defined as "Statement of facts relating to money or things having money value. "The facts which are incorporated in the records of accounts are called 'transactions' Thus, accounting means keep a systematic record of financial transactions. Audit is an important means of legislative control over financial administration. It is an instrument of enforcing accountability of administration to the legislature. It is a part of external control over administration. Article 148 of the India. He is the head of the Indian Audit and Accounts Department. He is the guardian of public purse and controls the entire financial system of the country at both the levels of the Centre and States. He is one of the bulwarks of the democratic system of government in India.

**8.2 Accounts and Audit**

Accounting is defined as "Statement of facts relating to money or thing having money value". The facts, which are incorporated in the record of accounts, are called 'transaction'. Thus accounting means keeping a systematic record of financial transactions. It involves the collection, recording, classifying and transactions of a financial nature and interpreting the result thereof.

> **CYP Question**
> 8. Write on essay account to audit

Francis Oakley defines accounting "as the science of producing promptly and presenting clearly the facts relating to financial conditions and operations that are required as a basis of management. Accounting has three purposes. They are.

1. The determination of the fidelity of those handling funds.
2. The furnishing of information regarding financial conditions and operations for policy making and administrative purposes and
3. The keeping of expenditure within the budgetary provisions and limitations.

There are certain primary functions of systematic accounting according to L.D. White They are:

1. To make financial record.
2. To protect those handling funds.
3. To reveal the financial conditions of the organization in all its branches.
4. To facilitate necessary adjustments in the rates of expenditure.
5. To give information to those who are in responsible positions on the basis of which plans for future financial and operating programmes can rest and
6. To aid in the making of audit.

**8.3 Structure of Accounts**

According to Article 150 of the Constitution, the form of the accounts of the Central and State Governments in prescribed by the President of India on the advice of the Comptroller and Auditor – General of India. Rule 2004 of Lok Sabha State that the Budget shall be presented to the Lok Sabha in such a form as the Finance Ministry may settle. In practice, the forms of Budget correspond to the forms of accounts.

The existing accounting practice could not meet the requirements of performance Budgeting. Consequently, a revised accounting structure was introduced in 1974 by the Central Government to serve the objectives of management and the need of financial control and accountability.

In pursuance of this revised scheme, a five-tier classification of accounts has been adopted.

- Sect oral
- Major Head
- Minor Head
- Subhead
- Detailed Head

The sect oral classification has divided the functions of Government into 3 sectors – General Services(with six sub sectors). Social and Community Services, and Economic Services (with seven Sub sectors). In addition, there is a fourth sector, namely Grants-in-aid and Contributions.

The major head of account denotes a function of Government (e.g. Agriculture), while the minor head is assigned to a programme (e.g. Agriculture Farms). The subhead denotes the scheme covered by a programme and the detailed head represents the expenditure on the scheme in terms of inputs like salaries, investments, and so on.

In the new revised classification, the 'Object Head' (i.e. the object level of Classification) has been retained and placed under the last tier. It provides item-wise control over expenditure.

The approval of the Comptroller and Auditor-General of India is required for any change in the major head,

**8.4 Objectives and Functions of Audit**

In the past, audit was conducted only in case of expenditure and that too only to ensure that money has been spent in accordance with the appropriation grants. But at present it is conducted for all financial transactions, whether for receipt or payment to ensure that money, which has been collected and expended, is in accordance with the provision of the Appropriation Act passed by the Legislature and that there is no fraud of embezzlement. The present audit goes a step further to examination of the "wisdom, faithfulness and economy", applied by the official in making the expenditure. It is no

longer sufficient appropriations should be applied to purposes approved and should not be extravagance and waste be avoided. "The main objective of audit is, to fix the accountability of the Officers of the Government for any illegal, improper or incorrect payments made resulting from any false, inaccurate for misleading certification made by them as well as for any payment prohibited by law or which did not represent a legal obligation or fund involved."

**8.5 Difference between Auditing and Accounting :-**

Auditing and Accounting are very closely related, yet there exists a great difference between the two, Accounting means keeping a systematic record in financial transactions whether of a public authority or private concern or accounts it is an indispensable means for exercising Financial control. Without accounts it is impossible to know how much was received and how much was spent and for what purpose. In the absence of such knowledge there can be no control. It is only through systematic accounts supported by vouchers and receipts that the legality and honesty of the transactions can be determined. Accounting is thus concerned with ensuring that the money requisitioned by the Department provided in the Budget and money is used by the Department which, permitted by the Budget and that the expenditure is in accordance with the law passed by the Parliament.

The audit has to see that the expenditure is in accordance with Appropriation Act, that the amounts are correct and documents and vouchers support all payments and receipts of money. It detects errors and frauds and exercises a check on misappropriation and mismanagement. Audit thus begin where accounting ends.

Secondly, the keeping of the accounts should be a function of the executive authorities and auditing that of the Legislature. It is necessary because those who spend the money must keep accounts and must be responsible for the fact that what they spent should be within the grants made be the Legislature. In other words, the auditor must not keep the accounts, which he audits.

Thirdly, the Audit Department should have the power to prescribe the accounting system. The is the only way in which the Audit Department can perform its duties efficiently otherwise spending Departments are likely to adopt different methods of Accounting which might make the task of audit difficult.

The power of auditing the Government accounts is vested with the Comptroller and Auditor General of India, Let us discuss his role in Auditing the next lesson.

**8.6 Comptroller and Auditor General of India**

The Indian Constitution provides for an independent office of the Comptroller and Auditor General of India. He is Head of the Indian Audit and Accounts Department. He is the guardian of the public purse and controls the entire financial system of the country at both the Center and the States.

The Comptroller and Auditor General of India is appointed for a term of six years or until he completed the 65 years whichever is earlier by the President. He is given a status equal to that Judge of the Supreme Court. In order to enable him to function independently without the interference of the Government, the Constitution of India has provided certain safeguards to his office. They are.

1. The Salaries and allowances of the Comptroller and Auditor General of India are charged for the consolidated fund of India directly. Therefore, the Prior permission from the Parliament is not necessary to pay the salaries and to extend the other service benefits to him.
2. His salaries and other service benefits cannot be reduced to his disadvantage during the tenure of his office.
3. He may be removed by impeachment by an order of the President passed after and Address by each House of Parliament supported by a majorities of the total Membership of that House and by a Majority of not less than two thirds of the Members of that House present and voting has been presented to the President in the same session of proved misbehavior or incapacity.

4. After his retirement he is not allowed to tack up a remunerative job both at the Center and the States Governments.

Article 149 of the Indian Constitution authorizes the Parliament to prescribe the duties and the powers of the Comptroller and the Auditor General of India in relation to the accounts of the Union and of the States and of any other authority or body. Accordingly, the Parliament enacted the Comptroller and the Auditor General of India. (Duties, powers and conditions of service) Act, 1978. This Act was amended in 1976 to separate accounts from audit in the Central Government.

The duties of the Comptroller and the Auditor General of India now are mainly relating to audit and report on all expenditure made by the Government of India as to whether such expenditure has been made in accordance with law and for the purpose for which it was sanctioned in his capacity as an Auditor – General he is responsible for auditing the accounts of the Government of India and those of the State not only from legal point of view but also from the sense of his own reasons and judgment. In other words, he is not only to see that the money spend is in accordance with the provisions of Budgetary sanctions but also that it is well spent according to the principles of faithfulness, wisdom and economy.

The role of Comptroller and the Auditor General of India is to uphold the Constitution of India and the law of the Parliament in the field of financial administration. The accountability of the Executive to the Parliament in the sphere of financial administration is secured through the audit report of the Comptroller and the Auditor General of India. The Comptroller and Auditor General of India is an agent of Parliament and conducts audit of expenditure of behalf of the Parliament. Thus, he is responsible only to the Parliament.

The Constitution of India Visualizes the Comptroller and the Auditor General of India to be both Comptroller as well as Auditor – General . However, in practice, the Comptroller and the Auditor General of India is fulfilling the role of the Auditor –

General only not that of the Comptroller. As said by DD Basu, "The Comptroller and the Auditor General of India has no control over the issue of money by issuing cheque without specific authority from the Comptroller and Auditor General of India, who is concerned only at the audit stage, when the expenditure has already taken place". In this respect, the Comptroller and Auditor General of India differs totally from the Comptroller and Auditor General of Britain who has the powers of both Comptroller as well as Auditor – General .In other words, in Britain, the Executive can draw money from the public exchequer only with the approval of the Comptroller and Auditor General Britain.

**8.7 Criticism of The Indian Audit System:**

> **CYP Questions.**
> 2. Analyze the role of comptroller and Auditor General of India

There has been a lot of criticism about our audit system in recent years. Paul H. Appleby, an American expert on Public Administration, who was invited by the Government of India to examine our administration, severely criticized our audit system in his second Report" Re-examination of India's Administrative System". He has observed that:

1. The system is in large measure an inheritance from colonial rule, it upheld that rule and was and was an integral part of it.
2. The Parliament, and public give undue importance to the audit report and "on so doing, Parliament increases the timidity of public servants at all levels, making them unwilling to take responsibility for decisions, forcing decisions to be made by a slow and cumbersome process of reference in which everybody finally shares dimly in the making of every decision, not enough gets done and what gets done is done slowly."
3. "The Comptroller and Auditor General's function is not really very important one. What auditors know is auditing, which is not administration; it is necessary but highly pedestrian function with a narrow perspective and very limited usefulness.
4. Referring to the audit of Public Undertaking, Apple by had said, "auditing in each enterprise must be done in a fashion as to fit the nature of its operation. This means that for this purpose auditing should be done at the direction of the board of

directors according to principles and methods set forth form time to time by the boards. "Auditing can be done in ways to satisfy both requirements in the case of industrial and commercial enterprises operated by the Government or by private auditing firms.

Ashok Chanda commented on the points of the Appleby report and said Appleby seems allergic to audit which he describes as "highly pedestrian function with a narrow perspective and very limited usefulness". This attitude of mind has Chanda referred to the increasing role of the audit in the USA and UK and felt that important for democratic administrations and its importance should not be minimized for effective financial control. Of Course, Chanda himself felt that there was need to reorganize and reorient our audit system so as to meet the administration have functioned in watertight compartments. There has been little inclination to get together to understand each other's points of view and what is more important to clarify issues and take remedial measures. Objections are raised, technical in character, even in respect of schemes and projects, which have been executed with competence and expeditions. It must be recognized that the purpose of a plan or project and the manner in which it is being implemented, are far more important, than mere technicalities.

Despite the criticisms made on Indian Audit system the Comptroller and the Auditor General of India has equal application for performing dui ties most conscientiously.

**8.8 Parliament Control Over Finance**

The Parliament exercises control over finance through three important financial committee. They are:

1. The Public Accounts Committee
2. The Estimates Committee and

3. The Committee on Public undertakings

Let us discusses in this lessons the composition, the powers, functions of the above Committees and how these Committees exercise control over finance.

**8.9 Estimates Committee:**

In 1921 it was proposed to create the Estimates Committee . But the proposal was not materialized. In the place of Estimates Committee, Standing Finance Committee was constituted in 1928. The functions of the Committee were purely advisory in nature. Johns Matthias, the Finance Minister of India suggested to create an Estimates Committee in India – On the basis of his suggestion, the Estimates Committee was constituted. It is a Standing Committee. Initially it consisted of 25 Members all forn the Lok Sabha. At present it consists of 30 Members from Lok Sabha. Ministers are nc allowed to become the Members of the Estimates Committee. The Members are electe for a term of one year on the principle of proportional presentation on a simpl transferable vote. The Speaker from among its Members appoints the Chairman of th Estimates Committee. Usually a senior Member form the ruling party is appointed a the Chairman of the Estimates Committee. If the Deputy Speaker is a Member of th Estimates Committee, the Speaker automatically considers him for the position of Chairman.

The Committee, is revived every year One third of its Members are allowed to reti and the two-third of the Members is allowed to continue in order to have continuity.

**The functions of the Estimates Committee are:**

1. To suggest reforms and improvements in Budget estimates prepared by to Administrative Ministries in consistent with the policy of the Government.
2. To suggest alternative policies to bring about economy and efficiency in Public Administration.

3. To examine whether the money is well laid out between the different Administrative Ministries within the policy of the Government.
4. To suggest forms in which the Administrative Ministries should prepare estimates.

The Estimates Committee is constituted in June every year. It starts functioning from July. It prepares the plan of work for the year. It selects few Estimates for detailed scrutiny. It starts collecting materials about the Estimates. The papers are a put before the Estimates Committee for preliminary scrutiny. Sub Committee are constituted for detailed scrutiny. The Estimates Committee issues questionnaire to officials to elicit their opinion. The Estimates Committee has the power to send for records, papers and persons for the Administrative Ministries. The Estimates Committee also forms Study Groups. Then Estimates Committee draws up its report. Generally there is no regular discussion on the report in the Parliament.

The Estimates Committee usually makes there kinds of recommendation.
They are:

1. For improving Governmental organization.
2. For Providing guidelines to the Administrative Ministries in the preparation of Budget Estimates and
3. For Securing economy in the allocation of funds in the Budget Estimates.

Though there is no regular discussion on the report submitted by the Estimates Committee in the Parliament; the recommendation of the Estimates Committee are given due consideration.

The Estimates Committee has provided useful services to the Government through its recommendations. They are:

1. It has suggested reorganization of the Secretariat.
2. It has suggested retrenchment in the position of Directors as they performed duplicating works.
3. It has suggested reforms in the Governmental organizations.

4. It has suggested the introduction of the Performance Budget.

At present the responsibilities of the Estimates Committee have increased. It has brought about efficiency and economy in the preparation of the Budget Estimates and bringing about useful changes in the Governmental organization.

**8.10 Public Accounts Committee**

Parliament is the fund raising and fund granting authority. It should see to it that the funds raised and spent should be in accordance with the permission given by it through the enactment of the Budget. Therefore, certain types of controls are necessary by the Parliament over the Public funds. The Parliament is a huge body. It canner exercise proper control the Public funds. The Public Accounts Committee helps the Parliament to exercise proper control over the public funds. In this essay let us discuss about the origin, composition, functions, operations and the utilities of the Public Accounts Committee.

**CYP Question**
3.Explain how parliament exercises control over public finance.

In 1867 the Chancellor of Exchequer, Gladstone created the Public Accounts Committee in the British, Parliament to exercise proper control over public accounts. In India the Public Accounts Committee was created in. 1921 Article 118(1) of the Indian Constitution provides for the creation of the Public Accounts Committee at the Central Government. Article 208 (1) provides for the creation of Public Accounts Committee in each State.

The Public Accounts Committee consisted of twelve Members when it was constituted in 1928. In 1951 it consisted of 15 Members from the Lok Sabha. In 1953, the strength of the Public Accounts Committee was increased to 22 Members. It consisted of 15 Members from the Lok Sabha and 7 Members form the Rajya Sabha. Inclusion of Rajya Sabha Members is a departure for British practice. Since the function of Public Accounts Committee is purely investigative in nature both the Houses of the Parliament have to play a role. Therefore, the Members from the Rajya Sabha also have been included in the Public Accounts Committee.

The important functions of the Public Accounts Committee are to examine.

1. Whether funds have been spent only for the appropriate purposes approved by the Parliament.
2. Whether there has beep any misuse of funds by the Government officials or
3. Whether there has been any misappropriation of funds by the Government officials.

The Comptroller and Auditor General of India after auditing the accounts of the Government submits his reports to the President. The President in turn submits the report to the Parliament.

The Parliament submits the reports to the Public Account Committee for detailed scrutiny. This Comptroller and the Auditor General of India helps the Public Accounts Committee in investigations. The officials responsible for financial irregularities are asked to appear before the Public Accounts Committee and explain the reasons for financial irregularities. If the explanation provided by the Government officials is not satisfactory, the Public Accounts Committee in its report points out the Government officials responsible for the financial irregularities. This report is submitted to the Parliament. The Parliament recommends certain actions against the officials responsible for financial irregularities. The Government takes action against the officials responsible for the financial irregularities and thereby the mistakes committed by the officials are rectified.

The Public Accounts Committee has provided some useful services. They are:

1. It has detected cases of misappropriation of funds by the Government officials.
2. It has suggested economy.
3. It has pointed out the financial irregularities , and
4. It has pointed out the loss of Public money.

Thus, the Public Accounts Committee by providing useful services acts as the guardian of public funds.

**8.11 The Committee on Public Undertakings**

The Committee on Public undertakings was constituted in 1964. When it was consisted of 10 Members from the Lok Sabha and 5 Members for the Rajya Sabha. They are elected for a term of one year form among its Members on the principle of proportional representation on a single transferable vote. The Speaker appoints the Chairman of the Committee on Public Undertaking. If the Deputy Speaker is one of the Members of the Committee on Public Undertakings the Speaker automatically appoints him as a chairman.

The Function entrusted to this Committee on Public Undertaking are:

1. To examine the reports and accounts of Public Undertaking specified in the Fourth Schedule to the Rule of Procedure and Conduct of Business in Lok Sabha'.
2. To examine the reports of the Comptroller and Auditor General of India on Public Undertakings.
3. To examine, in the context of autonomy and efficiency of the Public Enterprises , Whether the affairs of the Public Undertaking are being managed in accordance with sound business principles and prudent practices.
4. To exercise such other functions vested in the Public Accounts Committee and the Estimates Committee in relation to Public Undertaking as are not covered by clauses(1), (2) and (3) above and as may be allotted to the Committee by the Speaker from the time to time.

The Committee, however, shall not examine and investigate any of the following aspects namely:

1. Matters of major Government policy as distinct from business or commercial functions of the Public Undertakings,
2. Matter of day to day administration.

3. Matters for the consideration of which machinery is established by any special statute under which a Public Undertaking is established.

The term of the Committee does not exceed one year. However the Chairman who is appointed by the Speaker amongst the Members of the Committee, in practice, is appointed for another term of one year.

The Committee selects from time to time specific Public Enterprises or such subjects relating to Public Enterprises, as it deems fit. It asks, the Ministries/Departments to submit necessary information relating to Public Enterprises chosen or the subject taken up. The Committee often visits the enterprises so chosen, for formal discussion with the personnel of the undertakings. After the study tours and after receiving formal memoranda and other information form concerned parties non-official and official witness are invited to give evidence at formal sittings of the Committee held at Parliament House, New Delhi. The Committee may also public notice inviting grievances. Complaints and observations from those connected with or affected by the enterprises under its study.

The committee having gone through the enterprises, submits its report covering important aspects of their working. The recommendations of the Committee are to be replied by the Government. Replies to the recommendations of the committee are published in the 'Action Taken Report' which in addition to a chapter the main points of the report, contains for chapter entitled.

1. Recommendation that have been accepted by the Government.
2. Recommendation which the Committee does not desire to pursue.
3. Recommendation in respect of which replies of the Government have hot been accepted by the Committee, and
4. Recommendation in respect of which final replies are still awaited. For categories 3 and 4 above, the issue may be taken up again at the time the next report regarding that enterprise, and, if necessary, the Committee may reiterate its recommendations.

The usefulness of the Committee may be seen in the following facts.

1. The Committee provides a whole lot of rich and useful information of Public Enterprises operation. The enterprises are studied in detail covering important matters relating to their working and with view to making on evaluation of their performance. The report (along with its appendices contains useful information not otherwise available.
2. As the Government replies to the recommendations of the Committee, they indicate the Government's viewpoint on various matters of policy and the working of Public Enterprises. The Members of Parliament working on the Committee acquire an insight into the problems and operations of Public Enterprises.
3. It is a yearly Committee. Many Members of Parliament get informed about these enterprises and this would, in turn, raise the level of discussion on the floor of the House.
4. A great advantage of this Committee is that the managerial personnel of Public Enterprises get an opportunity to put their own case before the Committee Members i.e. direct Members of Parliament which is not otherwise available to them.

The Committee on Public Undertaking had played an important role in making the Parliamentary control on Public Enterprises more effective but there are certain limitations too of the Committee, which should be removed to make it more effective. These limitations are.

1. Only a few Public Enterprises have been covered under its Jurisdiction.
2. The Members on the Committee are experienced, able and efficient, it is not only factor that can maintain its supremacy. It is also necessary to have better Pai ia ıentary control on Public Enterprises that the Members should devote more time t , know the something factual about Public Enterprises. Members fail to study the problem of the public enterprise under investigation in detail before visiting the public enterprise for discussion with the managers.

3. In some cases, Committee recommendations are contradictory in its reports For example, in its report (1965-66), the Committee recommended Debt equity ration I Public Enterprises to be 2:1 whereas it was recommended 1:1 in its report (1967-68). It creates confusion.
4. The Committee, which combines the work of the Public Accounts Committee and the Estimates Committee, takes follow up action only on a few of the audit reports presented to Parliament by the Comptroller and Auditor General of India. The study shows that the Committee has not at all pursued 85% the audit paras reviews.
5. The Committee submits a number of recommendations in its reports, the follow up action, their implementation is not possible on all of them.

The Committee can examine the reports and accounts of Public Enterprises specified in. the fourth schedule to the Rules of Procedure and Conduct of Business in. the Lok Sabha. The schedule covers the following Public Undertakings in three parts.

**8.12 Summary**

Account involves the collection, recording, classifying and summarizing transactions of a financial nature and interpreting the results thereof. Accounting has three purposes. I.e., the determination handling funds, policy making and keeping expenditure. In audit, it is the process of ascertaining whether the administration has spent or is pending its funds in accordance with the terms of the legislative instrument which appropriated the money. The CAG has more freedom with regard to audit of expenditure than with regard to audit of receipts, Stores and stock and also has to ascertain whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or the purpose to which governs it. Parliament control over Finance is of pivotal importance in making the parliamentary control over government expenditure complete. From its very inception, the Central Public Accounts Committee became a major force in the legislative control of public expenditure. Despite the limitations of its constitution and the restrictions on its authority, it exercised enormous influence in bringing pressure to bear upon government to enforce economy in the expenditure of public money.

## 8.13 Key Words

Accounts, audit, fiscal policy, CAG, Article 148, Public Corporations.

## 8.15 Books for Further Reading :

(i) The Public Accounts Committee, Third Report, 1952-53, Appendix 8.

(ii) Comptroller General of the U.S. Annual Report, 1950, p49.

(iii) Article 148 (3) of the Indian Constitution.

(iv) Article 149 of the Indian Constitution

## 8.14 Answer for CYP Questions

For Question No.8. --- Refer Section No. 8.2

Question No.2 --- Refer Section No. 8.3.1

Question No.3 --- Refer Section No. 8.4.2

## 8.16 Model Questions :

8. Write an essay on Accounts and Audit
2. Analyze the role of comptroller and Auditor General of India
3. Explain how Parliament exercises control over Public finance.
4. Explain the organization and working of Public Account Committee.
5. Bring out the organization and role of Estimates Committee.
6. Analyze the role of the Committee on Public Undertakings.

# UNIT - 9
# ADMINISTRATIVE REFORMS

**Introduction :**

Many personnel related administrative subjects are as speculative and imponderable as they are because of the berth of facts and systematic analysis that permit an objectively drawn finding or conclusion. Through attempts are being made in the line of personnel research the progress has been much less. One could positively hope for an increase since the growth in size of many firms and the recent emphasis an human relations have stimulated interest in identifying and appreciating variables that influence job satisfaction, morale, supervision, communication, and delegation of authority. Administrative reforms in Financial Administration particularly have been introduced by way of introducing Performance Budgeting and Zero Base Budgeting in India and in the Creation of a position Controller General of Accounts, Separation Accounts from Audit and Departmentalization of Accounts.

**Objectives:**

- Reforms in personnel administration
- Other additional needs of labors in India
- High impact programmes to obtain more finances
- The formulation of the budget.

**Structure :**

Introduction
Administrative Reforms in Personnel Administration
The problem in Behavioral Research
The Need of the Day
Other Additional Needs
The Research Outlook
Objective

Systematic

Genera liable

Purposive

Parsimonious

Replicable

Approaches to Personnel Research

Process of Personnel Research

Personnel Reform

Personnel Research in India

Administrative Reforms in Financial Administration

Performance Budgeting

Zero-base Budgeting

Controller General of Accounts

Separation of Accounts from Audit

Departmentalization of Accounts.

Summary

Key words

Books for Further Reading

Answer for CYP Questions

Model Questions

**9.1 Introduction :**

Many personnel related administrative subjects are as speculative and imponderable as they are because of the berth of facts and systematic analysis that permit an objectively drawn finding or conclusion. Through attempts are being made in the line of personnel research the progress has been much less. One could positively hope for an increase since the growth in size of many firms and the recent emphasis an human relations have stimulated interest in identifying and appreciating variables that influence job satisfaction, morale, supervision, communication, and delegation of authority. Administrative reforms in Financial Administration particularly have been introduced by way of introducing Performance Budgeting and Zero **Base** Budgeting in India and in the Creation of a position

Controller General of Accounts, Separation Accounts from Audit and Departmentalization of Accounts.

### 9.2 The Need of the Day

The agenda of needs for personnel research prepared some years ago is still apropos, because so little has been done in the meantime. A selective list of conclusions from two noteworthy reports (USA) is worth summarizing.

1. Out of the total research budget of the whole nation only about one percent alone is devoted to the social or behavioral research.
2. Technical areas that have received very little attention. Training methods and learning process, job analysis performance evolution pay and fridge benefits and the special problems are of personnel management in government.
3. Selection and testing have received more emphasis in research than any other area of personnel administration.
4. Important research needs appear in the following

   a)How to engineer work for human effectiveness.

   b)How to the use the fruits of increased productivity.

   c)How to identify and realize creative talent

   d)The effect of the government setting likes legislative actions, statutory control bodies functions, court action etc, on public personnel administration.

   e)The effect of political parties and patronage

   f)Organization for the personnel function in government.

   g)Comparative analysis of career system,

   h)Intergovernmental mobility of professionals and managerial personnel

   i)Significance and effects of veteran preference.

   j) Professionalition of the personnel executive and specialist.

   k) Nature and causes of public attitudes towards the public services.
5. Personnel administrators should become more research conscious.
6. All government should perform or arrange for much more research in the personnel field.

### 9.3 Other Additional needs

1. To develop more sharply the genuine, as distinguished from the presumed qualifications needed to perform various classes of work.
2. To find the optimum ways of reconciling career stability with the infusion of new blood.
3. To learn how to balance personal freedom with the necessities bureaucratic impartiality and ethical behavior
4. To devise fresh ways of developing employee skills in motivation and supervision.
5. To discover practical means of reporting and evaluating personnel policies and practice.
6. To ascertain the impact of computer technology on work on people and on work on products.

Essentially we are concerned with a most important area of social science research- The workday of man occupies more of his time and attention than any other element of his active life. Common sense alone would suggest that we know as much about it as possible. To do that we need to employ the information and techniques of the anthropologist, the economist, the sociologist, the psychologist, the psychiatrist, the engineer, the statistician, and the political scientist. In other words we must discipline ourselves to rely not just on hunch and guess but also on systematic, orderly study and appraisal of controlled and a observable experience.

Actually the truly substantial advances in the art and science of personnel administration have been based on research, such has been the case with the work of psychometrics in test research, that of educators in d elementary principles of learning and that of health specialists iii showing the relationship of preventive health and safety measures to productivity and job satisfaction. The military services have never been slow to rely on heavy investment in research. Examples of successful use in civilian pursuits have been the studies of selection and motivation cf volunteers in the peace corps; the exhaustive studies into the selection, care and nurturing of astronauts by the National

Aeronautics and Space Administration and the long standing studies by the Public Health Service on various categories of health personnel.

Yet research is still conspicuous by its absence among public personnel agencies. Very few states have personnel research units worthy of the name. The U.S. civil service commission devotes a deplorably small expenditure to this field and even then it is almost confined to the traditional test and measurement area. Few of the largest federal departments have special staff for the purpose. In short the function has not achieved anything like the stature that is required if modern government is to profit from what we already know about the utility of sound and continuing research in personnel administration.

**9.4 The Research Outlook**

The research approach is epitomized as much in a point of view as it is in a process. It is the willingness to venture a new hypothesis, to act on facts and not conjuncture, to experiment at learn and revise on the basis of organized study of experience. It is attitude of the diagnostician the inquiring mind, the entrepreneur, the innovator. It is the facing of fac ts by assembling them systematically validating them rigorously and interpreting them intelligently in essence people describe this way of doing things as the scientific method.

Research is a combination of theorizing, experimenting and discovering. Some research may proceed no further than the descriptive stage. Some may be analytical. That which ventures forth with new ideas and dares to try them out under rigidly controlled condition is creative.

Some administrators make the mistake of assuming that once research is conducted on particular subject with some success, it is transferable to all related situations. Every organization needs to shape its own inquiries in the context of its won environment. The findings in one place can be immensely helpful, but more offer than not they require repeated verification in the light of the circumstances of each organization. Unlike the natural sciences,, the results of sciences, research are not highly borrow able. The most

that a study in one place can do is to suggest a line of approach. Only after a great many repeats under a wide variety of conditions can anything like some enduring conclusions be expounded.

Likewise, the techniques of research evolve. In this respect the natural and social sciences are not one. Both subject matter and lines of approach change. Perhaps that is why research is never complete. Only the naïve would suggest that once a set of answers is found the study may be discontinued.

In the 1920's management thought of personnel research in terms of stopwatches and test banks. In the 1930's the Hawthorne investigators proclaimed the importance of the interview. Uses as well as methods of personnel research or fact finding for the guidance of administrative decisions on personnel have changed in response to changing emphasis in administration. There is much continuing truth in the above statement of Elinr. G. Hayes. And so will tomorrow's research call for new insights and new designs. The important thing is that there be a mechanism and a habit of research to permit a response.

Because of certain specific advantages scientific research is preferred over other methods of eliciting information and knowledge. Scientific research is objective systematic, generalizable purposive, parsimonious and replicable.

**9.5 Objective**

Since mere opinions and personal experiences of individuals with known blazes are not relied upon in research. It can control subjectivity and personal prejudice. It recognized these blazes and controls them by using tested methods and techniques.

**9.6 Systematic**

Scientific research identifies a problem and chalks out the most suitable design or plan of investigation. All the necessary steps precautions and preconditions are thoroughly explored and wherever necessary controlled or eliminated.

### 9.7 Generalizable

It is Generalizable, unlike opinions experiences and attitudes scientific research has the characteristic of generalizability. Since extraneous and irrelevant situations are controlled or eliminated from research clear generalizable conclusions are easy to draw, other thing remaining constant thus predictions are possible.

### 9.8 Purposive

Unlike the traditional approaches research does not accumulate unstructured observations. Since the problem is clear, the collection of facts and information serves the specific purpose of understanding and seeking answers to the problem. Thus it eliminates irrelevancy in attempts.

### 9.9 Parsimonious

It is parsimonious by being systematic and purposive it identifies methods, tools and techniques to understand or solve problems with the minimum cost. The law of parsimony dictates that methods chosen will involve minimum difficulty, effort and cost assuming that they guarantee adequate quality and do not overlook the requirements of scientific research.

### 9.10 Replicable

It is replicable. It has the advantage of being repeated by another researcher and at another time opinions and attitudes do not seem to possess this feature. Since research is based on a certain methodology, it is possible to replicate, the study under similar conditions or with modification to test out or carry out studies based on larger samples, for instance. Hence it generates greater trust and reliability in its findings.

### 9.11 Approaches to Personnel Research

Research is basically the selection of facts on a specific problem and a search for trends and patterns that will help in solving this problem. Personnel research can be of various types and different approaches can be used to get information and draw conclusions. The choice depends on the nature of the problem, the nature of the

availability of data and the time cost resource constraint. Thus research implies the arrangement of conditions for collecting data in a manner that combines relevance with economy. Naturally, the approach will differ with the purpose. There are normally five approaches namely the case study, historical study, survey research, exploratory study and experimental study.

**9.12 Process of Personnel Research**

To carry out personnel research a sound knowledge of process of research, the various steps followed in research form the identification of the problem to the drawing of conclusions and the methods of data collection are equally important. In addition to helping in carrying out personnel research, this knowledge helps to provide frame of reference to the reported research of others.

All research including personnel research can broadly be classified into applied and pure. Most industrial research is applied because it is carried out to solve and understand any specific problem of the organization, the research outcome leads to specific action plans on the other hand pure or theoretical research is carried out to determine the relationship causality or condition under which changes in other situations. The findings may not lead to specific action plans but can be used to develop concepts, theories and frameworks or to test them. Both researches are useful.

Normally the following steps are followed-statement of purpose, statement problem, statement of method and procedure, statement of findings and the statement of analysis and implications.

**9.13 Personnel Reform**

No small put and probably the most difficult aspect of assisting governments in public administration is the area of personnel reform. The personnel issues that face developing nations have already suggested the scope and content of what must be dealt with and revised. At this point it may be useful to set forth a few considerations of possible applications and derived from these, outline what the main elements of a basic personnel of career service law and polity might ideally be like.

**CYP Question**
9. Write an essay on Administrative Reforms in Public administration

**9.14 Some of the universals that could govern personnel reform anywhere are:**

1. Personnel administration should be viewed as a part of general administration, not a function isolated from the mainstream of public management. It is a matter of emphasis on attitude, a way of looking at administration a consciousness of the complexities of human relationship and if the importance of the human resource is getting work done. Therefore the personnel function should be integrated with the executive management of government.
2. Personnel administration should be viewed as dynamic not static. It is under constant growth and change. Hence, career service foundations would be sufficiently flexible to accommodate to change.
3. The selection motivation and retention of public employees should always be based primarily on quality and merit, in the broadest sense of those terms. Merit should be understood to embrace interest in and zeal for the public programme to which employees are assigned.
4. A Personnel system should provide good conditions of employment satisfactory environment, adequate rewards and enlightened supervision Unless these conditions are, secured the higher motivations and absolute integrity are almost impossible to attain on any general scale.
5. The character and direction of a career service should demonstrate recognition of the dignity of the individual and of respect for human personality.
6. The administrative climate-the systems of authority the confidence in people, the minimizing of status or class the brand of executive direction should be sufficiently motivating and supportive that it stimulates the release of human energy and ideas in the interest of the objectives of the public service.

There are obviously generalizations but their meaning will be patently clear when specific policies and practices are measured against them.

No attempt will be made to identify the precise elements of the ideal personnel system to fit all places and all times most personnel methods and techniques are not so standardized did they can be uncritically exported from one country to another. It is because such exploration was attempted during the colonial period at least, that so many developing nations are in need of civil service reform today.

Nevertheless, we can proceed somewhat beyond the level of fundamental and broad principle. We can list the most important elements of a personnel or career service law that may serve as a model for the transitional societies around the world. The main features of the statutory foundation for a viable personnel system to serve the needs of modem government may be explained.

1. The law of the nation should have a clear and substantial statement of purpose setting forth a forward-looking comprehensive set of ideals.
2. Such laws should be clear but flexible with as much of its content as possible expressed in principle but leaving a large measure of discretion to executive and administrative authorities to adapt those principles to different parts of the service and to changing conditions.
3. The set of laws should stress authority and the nature and scope of functions rather than institutional forms. Too many personnel laws now in existence expand all their force on the establishment of a personnel agency and structure and on the details of their operation.
4. The law should be an instrument of public management, not merely a bill of rights and protection for public employees. The main thrust should be effective operation of the administrative agencies of government and the establishment of a bureaucracy of high standards responsive to the will of the people. Although the law may include provisions that serve as guarantee to employees, these should be clearly subordinated to the overriding purpose to guarantee to the people of the nation that the personnel system is designed as a high quality instrument to serve the interests of the state and through it to the people.
5. The law should establish personnel administration as one of the normal executive powers. Along with the objectives and some of the methods of exercise of that power, it should provide for clear authority vested in chief executive, but with equally clear encouragement to delegate specific responsibilities to department heads and personnel offices. This proposal is based on the notion that good personnel administration depends in the last analysis on well-motivated executive leadership on vigilant citizen interest

in supporting that leadership and on making that leadership feel a sense of responsibility for sound personnel management.

6. The law should establish a strong single administrator, reporting to the chief executive, to be in charge of the personnel function and a part time board or commission of three to five members to exercise a 'watchdog' role in the development and the application of personnel policy. Provision may be made for selection of the personnel administrator on the basis of technical and personnel administrator on the basis of technical and personnel qualification and of the members of the overseeing body on the basis of previous public service and unimpeachable character and standing. The administrator would initiate policy, make recommendations to the chief executive, take decisions delegated to him and operate the personnel System. The board or commission would assure that personnel policies or action would not be decided in secret that there would be a flow of information on the status and problems of personnel administration kept open to the public to legislators and to the executive-but it would not be empowered to pass on issues before action on policy could take place.
7. The law should specify the criteria for coverage of the career service. It might also lay down the general member and type of posts that may be left to political discretion for appointment. One device could be to permit the chief executive to exempt positions from the career system only aft" soliciting the advice of the personnel board or commission.

8. The law should include general provisions authorizing recruitment based on merit, without consideration of irrelevant factors, and utilizing techniques of competitive examination to be prescribed by the personnel administrator. Classification of positions into types and levels consistent with the skills and knowledge is necessary to perform the work. The establishment to pay scales by the chief executive upon advice of the personnel board or commission and within broad fiscal limits set by the legislative body separation of employees

from the service performance or misconduct or when there is not longer need for their services due to illness and for vacation; life and health insurance for employees and their families; a retirement plan to insure deferred income to employees after some minimum period of service; advancement, transfer and other movement within the service on the basis of merit and the needs of the service, an in service training programme for orientation, skill improvement and preparation for advancement, a flexible system of performance evaluation and awards; health and safety care on the job.

9. The law should place legal restriction on political party activity of employees only to the extent necessary to avoid conflicts with the principle of impartiality of the civil servant thus allowing a reasonable measure of political freedom. Negative restrictions might be confined to prevention of assessment on employees of party contribution etc.
10. The law should establish clear standards of ethical conduct for public employees, preventing conflicts of interests, acceptance gifts or bribes and unauthorized use of official information for personal gain.

11. The law should set forth very general provisions for employee grievances and appeals against management actions.

12. The law should provide for employee representation and consultation when changes in personnel policy or benefits are under consideration, with the details of relationships to be established by the personnel administrator.

13. The law should also make ample provision for financial support of personnel operations possible in the form of minimum percentage of the total payroll, so as to insure that the objectives are not sabotaged or weakened for want of necessary staff and facilities.

With provisions of the type outlined a personnel or career service law

Would obviously leave many policy decisions and all procedural features to the daily administration of the system. The principle, however would be unmistakable. And the character and aims of the personnel system would be sufficiently explicit that an alert and informed citizenry, operating through its representative could insist on faithful execution of the law and high standards of performance under it.

**9.15 Personnel Research in India**

In the Indian situation there is one significant work in the field of personnel research in the public service. However the Government of India and many State governments have combined the departments of personnel with the department of administrative reforms so that the two can interact fruitfully.

In the field of industrial personnel administration considerable research is going on. India the first step towards teaching of industrial relations at academic level was taken up in 1936, when the House of Tata's took the initiative in establishing a school of social work in Bombay. The objectives were to organize trading programmes for the young graduates to industrial enterprises. Subsequently many schools of social work emerged.

A survey of the literature produced and research undertaken in the broad fields of personnel management and industrial relations reveals that the interest and attention were quite diverse. The major subject areas have been the following

1. Trade Union Development-structure and policy.
2. Historical study of industrial conflict.
3. Ideological background of the trade union movement in India.
4. Workers participation in Management.
5. Motivation and Leadership.
6. Training and development.

Besides the Universities and government departments there are some specialized centers exclusively devoted to the collection and dissemination of lab our statistics and to research in the field of lab our A brief account of such agencies may be added.

Shri Ram Centre for Industrial Relations, New Delhi

The centre was established in the year 1963 with the initiative taken by the foundation of the Shri Ram group industries. The research activities of the centre are organized into five divisions viz., personnel economics, sociology, industrial psychology and management development. In addition there is a special cell on Trade union studies and research. The centre communicates its research through its journal, Indian Journal of Industrial Relations, and other publications, seminars, symposia and training courses.

**Labour Bureau, Shimla**

It is one of the main agencies carrying out research, studies and surveys on labour problems. The regular publications of the Bureau include the Indian Labour year Book. The Indian Labour Statistics and the Pocket Book of Labour Statistics published annually. The Bureau also brings out labour law. The bureau has also started bringing out a monthly newsletter under the caption Tab our intelligence' in July 1984. The newsletter gives the latest data on industrial disputes, fixation and revision of wages and the list of latest survey reports brought by the Bureau.

**National Labour Institute, New Delhi**

The institute was established by the Government of India Ministry of Labour and registered as a society under the societies Registration 1960. It started functioning in July 1874. The objects of the institute, include promotion of research, education consultancy and publication activities. The regular publication of the institute are a quarterly journal, 'National Labour Institute Bulletin' a monthly publication-Awards Digest' and a bi-monthly 'Shram Vidhan'. The last two journals publish gist's of decisions and awards given by Labour Courts, High Courts and Supreme Court on various labour issues.

**The Indian Council of Social Science Research, New Delhi**

Considering the complexity and magnitude of the problem of social science research in India a Social Science Research committee was assigned the task of surveying the current position of social science research and of making recommendations regarding its future lines of development and the organizational and other steps necessary to accelerate progress.

Following the main recommendations of the Committee the Indian Council of Social Science Research was established in 1968. Since its establishment, the council has earmarked upon a multifaceted programme of aiding and promoting research in India. Industrial Relations as subject area has been assigned a definite place in the overall research objectives of the Council. Some of the important publications of the Council are ICSSR Newsletter, ICSSR Research Abstract Quarterly and Indian Dissertation Abstracts.

**9.3 Administrative Reforms In Financial Administration**

A number of reforms have been introduced in Financial Administration. These reforms particularly have been introduced by way of introducing Performance Budgeting and Zero Base Budgeting in India and in the creation of a position Controller General of Accounts, Separation Accounts from Audit and Departmentalization of Accounts. Let us briefly discuss the various reforms that have been introduced in Financial Administration.

1. It presents more clearly, the purposes and objectives for which the funds are sought by the executive from the parliament.
2. It brings out the programmes and accomplishments in financial and physical terms.
3. It facilitates a better understanding and better review of the budget by the Parliament.
4. It improves the formulation of the budget.
5. It facilitates the process of decision-making at all levels of government.
6. It increases the accountability of the government.

7. It provides an extra tool of management control of financial operation.
8. It render performance audit more purposeful and effective

### 9.16 Performance Budgeting

The system of performance budgeting (earlier called as functional budgeting or activity budgeting) originated in the USA- The term 'performance budget' was coined by the First Hoover Commission (1949). The commission recommended the adoption of performance budgeting in the USA to make effective management approach to budgeting. Accordingly, it was introduced in 1950 by President Truman.

Unlike the line-item budgeting, the performance budgeting emphasizes on the purpose of expenditure rather than the expenditure itself it presents budget in terms of functions, programmes, activities and projects. It establishes a correlation between the physical (performance or output) and financial (input) aspects of each programme and activity. Hence, it necessitates a functional classification of the budget.

In India, the adoption of performance budget was recommended first by the Estimates Committee of Parliament in 1956. In 1964, the Government invited Frank W. Krause, an American expert, to study the suitability and feasibility of this system of budgeting in India. Finally the Central Government introduced performance budgeting in 1968 on the recommendation of the Administrative Reforms budgeting are as follows:

In 1968, the performance budgeting was introduced in four ministries of the Government of India. Later in 1977-78, it was extended to many developmental departments.

### 9.17 Zero-base Budgeting (ZBB)

The ZBB also originated and developed in the USA. It was created in 1969 by Peter A. Pyhrr, a manager of a private industry. It was introduced in the USA by President Jimmy Carter in 1978.

Like the performance budgeting or PPBS, the ZBB is also a rational system of budgeting. Under this system, every scheme should be reviewed critically and re justified

**CYP Question**
2.Explain the functions of Controller General of Accounts in India

totally from zero (or scratch) before being included in the budget. Thus, the ZBB involves a total reexamination of all schemes afresh (from base zero) instead of following the incremental approach to budgeting winch begins with the estimation. Of the current expenditure. In the words of K.L. Handa, "The basic feature of a zero-based budget is that the departments, while preparing their budgets, should not take anything for granted and, therefore, should start on a clean slate. The budget making for the ensuring year should be started from zero instead of treating the current budget as the base or the starting point."

The advantages/benefits of ZBB technique are:

1. It eliminates or minimizes the low priority programmes.
2. It improves the programme effectiveness dramatically.
3. It makes the high impact programmes to obtain more finances.
4. It reduces the tax increase.
5. It facilitates critical review of schemes in terms of their cost effectiveness and cost benefits.
6. It provides for quick budget adjustments during the year. It allocates the scarce resources rationally.
7. It allocates the scarce resources rationally.
8. It increases the participation of the line personnel in the preparation of budget.

In India, the ZBB was first introduced in the department of Science and Technology in 1983.

**9.18 Controller General of Accounts**

In 1976, a new office of the Controller General of Accounts was established as part of the Department of Expenditure of the Ministry of Finance. He is to administer matters relating to the Departmentalization, of accounts of the Central Government.

He is the technical authority heading the new accounting set up of Central Government. He is responsible for the following:

1. Prescribing the form of accounts.
2. Framing rules and regulations in the field of accounts.
3. Internal audit.

4. Publishing accounts codes and manuals
5. Bringing out a cadre management of civil account personnel.
6. Consolidation of the monthly and annual accounts of the Central Government.
7. Administration of rules under Article 283 of the Constitution. This article deals with the custody and other aspects of Consolidated Fund, Contingency Fund and moneys credited to the Public Accounts.
8. Preparing a condensed form of the Appropriation Accounts and Finance Accounts of the Central Government. These after getting audited by Computer and Auditor-General of India are placed before the Parliament by the President.

The Appropriation Accounts compare the actual expenditure under various grants with the amount of voted grants as specified in the Appropriation Act passed by the Parliament.

The Finance Accounts shows (under the respective heads) the annual receipts and disbursements for the purposes of the Central Government.

**9.19 Separation of Accounts from Audit**

Till 1976, accounting and auditing functions, were combined in the office of the Comptroller and Auditor-General of India. In other words, he was responsible for both the compilation and maintenance of accounts as well as their auditing, not only with respects to the Central Government but also the State Governments. This combined arrangement was a relic of the British rule and came to be criticized. Accordingly, the Muddiman Committee (1924), the Simon Commission (1929), the Public Accounts Committee and the Estimates Committee recommended, the separation of accounts from audit on following grounds.

**CYP Question**
3.Bring out the need for Departmentalization of Accounts

1. The separation would increase the efficiency of Audit Department as it will be relieved of accounting responsibilities and can concentrate on audit function only.
2. The combined system has the inherent danger of frauds and embezzlements and prevent their coming to light.

3. The combination of the two functions in a single office is not appropriate as accounting is an executive function while auditing is a quasi-parliamentary functions.
4. The combined system requires the Comptroller and Auditor-General to audit the accounts which are compiled by himself This places bun in a highly embarrassing position and is against the practice of other modern governments which have separated the two functions.
5. The separation makes the spending departments not to exceed the appropriations sanctioned by the Parliament as they are entrusted with the accounting responsibilities.
6. The separation would increase the independence of audit, as the combined system runs counter to the principle of independence of audit.
7. The entrustment of accounting responsibilities to the departments would not only improve the system of accounting but also make them responsible.
8. The separation of the two functions entrusting the accounting responsibilities to executive departments not only facilitates close budgeting but also more effective formulation of revised estimates by them.
9. The separation facilitates use of accounting in decision-making and financial management.

**9.20 Departmentalization of Accounts**

In 1976, the Central Government separated accounting from audit by adopting the new scheme of Departmentalization of accounts. The Salient features of the scheme of Departmentalized management accounting system are as follows:

1. The Comptroller and Auditor-General of India was relieved of the responsibility of the compilation and maintenance of accounts of the Central Government and is now concerned with their auditing only. However, he continues to be responsible for the compilation and maintenance of accounts of the States, which have not separated accounts from audit.

2. The Administrative Departments have taken over most of the payment and receipt functions from the treasuries. In other words, they have assumed responsibility for making payments and doff accounting.
3. The Secretary of the Ministry is designated as the Chief Accounting Authority for all the transactions of the Ministry as well as its attached and subordinate offices. He is totally responsible for the working of the payment and accounting set up, and is also responsible for the certification of the monthly accounts. He discharges this responsibility through and with the assistance of the Integrated Financial Advisor of the Ministry.

The Integrated Financial Advisor is the head of the payment and accounting organization of the Ministry. On behalf of the Chief Accounting Authority (i.e. Secretary of the Ministry), he is responsible for the following:

1. Formulation of the Budget of the Ministry and its Department.
2. Control of expenditure.
3. Arranging payments sanctioned by the Ministry
4. Consolidation of the accounts of the Ministry as a whole.
5. Preparation of Appropriation Accounts for the grants controlled by the Ministry.
6. Introduction of an efficient system of management best suited to the functional requirements of the Ministry and its Departments.
7. Internal audit of payments and accounts.
8. Ensuring accuracy of accounts and efficiency of operations.

In the performance of the above duties, Principal Accounts Officers, the Heads of Pay and Accounts Offices, the Chief Controller of Accounts, and the controller of Accounts assist the integrated Financial Advisor.

**9.21 Summary :**

Besides the Universities and government departments there are some specialized centers exclusively devoted to the collection and dissemination of labor statistic and to research in the field of labor a brief account of such agencies may be added. The system of performance budgeting facilities a better understanding and better review of the budget by the parliament. Zero based budget facilitates critical review of schemes in terms of their cost – effectiveness and cost benefits. The administrative departments have taken over most of the payment and receipt functions form the treasuries.

**9.22 Key Words:**

ARC,ZBB, Budget, Finance

**9.24 Books for Further Readings.**

(i) The Public Accounts Committee, Third Report, 1952-53, Appendix 9.

(ii) Comptroller General of the U.S., Annual Report, 1950, p49

(iii) Article 148 (3) of the Indian Constitution

(iv) Article 149 of the Indian Constitution.

**9.23 Answer for CYP Questions**

For Question No.9. – Refer Section No. 9.2.13

Question No.2. – Refer Section No. 9.3.2

Question No.3 – Refer Section No. 9.3.4

**9.25 Model Questions**

9. Write an essay on Administrative Reforms in Public Personnel Administration

2. Explain the functions of Controllers General of Accounts in India.

3. Bring out the need for Departmentalization of Accounts.

4. Write an essay on the various administrative reforms introduced in India.

5. Analyze the role of the Committee on Public Undertakings.

# UNIT -10

# RECENT DEVELOPMENTS IN PERSONNEL AND FINANCIAL ADMINISTRATION

**Introduction :**

Personnel administration is also called 'manpower management' 'personnel management', 'labor welfare management'. However personnel administration has a wider connotation. It deals with classification, recruitment, training, promotion, compensation, discipline and retirement benefits of the personnel in the government. Personnel administration has witnessed the developments in recent years. Financial administration is an important facet of public administration. A number of developments have taken place in financial administration in recent years. These reforms are found in the Managements. The various sources of funds to finance economic development in the modern states are taxation, public borrowing, government savings, and surplus of public enterprises, deficit financing and external assistance.

**Objectives :**

- Rectifies the management conflicts between labors and management.
- Performance appraisal and career development.
- Regulate the implementation of the budget.
- The high impact programmes to obtain more finances.

**Structure:**

Introduction

Recent Developments in Personnel Administration

Conflict Resolution

Performance appraisal

Career development

Employee's Participation

Public Service Ethics

Recent Development in Financial Administration

Deficit Financing

Public Dept Management

Summary

Key Words

Answer for CYP Questions

Books for Further Reading

Model Questions

**10.1 Introduction :**

Personnel administration is also called 'manpower management' 'personnel management', 'labor welfare management'. However personnel administration has a wider connotation. It deals with classification, recruitment, training, promotion, compensation, discipline and retirement benefits of the personnel in the government. Personnel administration has witnessed the developments in recent years. Financial administration is an important facet of public administration. A number of developments have taken place in financial administration in recent years. These reforms are found in the Managements. The various sources of funds to finance economic development in the modern states are taxation, public borrowing, government savings, and surplus of public enterprises, deficit financing and external assistance.

**10.2 Recent Developments In Personnel Administration**

Recent Development in Personnel Administration are discussed under five headings in this essay. They are:

1. Conflict Resolution,
2. Performance appraisal,
3. Career development,
4. Employee's Participation and
5. Public Service Ethics.

**CYP Question**
10. Write an essay on recent developments in personnel Administration.

## 10.3 Conflict Resolution

The management of conflict becomes an important topic of interest in the field of personnel management. The process of integrating interest requires both preventive and curative activities. Despite the best of management practices in acting and communicating, conflicts between employee and the organization will occur. A total absence of conflict would be unbelievable and strong indications that such conflicts are being suppressed. One of the characteristics of a mature group is its willingness and ability to bring suppressed conflicts to the surface where they may be discussed with a greater opportunity of resolution. It would be naïve tgo insist all conflicts can be eliminated in some manner or other but their exposure and discussion will contribute greatly towards their reduction. Conflict in general need not be take as a bad sign totally for the organizations. Always disagreements and dissatisfactions can lead to reexamination of basic assumption and practices. to the end and that adjustments can be made to improve overall organizational effectiveness.

**CYP Question**
2. Explain the recent developme nts in conflict resolutions.

### The Discovery of Conflicts of Interests

We have already discussed the personnel communication grievances and employee organizations in the previous chapters. In explaining conflict resolution we depend considerably on those factors. There has been a trend towards increasing the number of upward channels of communication. Part of the impetus far this trend comes from a growing recognition of the importance of good organization morale. Credit can be also given to the growth of lab our unions, which exemplified a need for additional channels. In any event the voice of the employee is much louder today. There may be a common notion and some would view this vociferousness as evidence that the amount of disagreement and trouble has been on the increase. On the other hand, it may be that such trouble has always existed, but that now, it can rise to the surface and be observed.

### Grievances Procedure

The most important channel through which to communicate dissatisfaction to the management is properly constituted grievance procedure. Such a channel presumes that the individual has the courage to submit a complaint to the supervisor for discussion. One contribution to communication is the employees associations have made the provision of

some of this needed courage. Because of the importance of this means of discovering conflicts of interests, a large portion of this chapter will be devoted to the processing of grievances and other related matters.

**Direct Observation**

Not all conflicts will be voices to other people. A good supervisor knows the customary behavior of subordinates and when significant changes in that behavior, he or she is concerned with possible motives. Often such motives are apparent, as in the case of an individual who faded to receive an expected promotion. Though nothing was said, the individuals work and work habits deteriorated rapidly. Such conflict is difficult to resolve, but its productivity is not to be adversely affected the persons must be somehow alleviated.

In addition to direct observation of individual human behavior the study of various records and statistics can often give clues to general areas of trouble. Analysis of the number of formal grievances field by a department, regardless of their content may disclose additional unvoiced conflicts. In a study conducted in the USA of some 4000 grievances over a 6 year period in a plant employing 25,000 workers, the person who was most likely to file a grievance was (1) Younger (2) Better educated (3) Had more derogatory information in his personnel life. In sum this is a picture of a person who is able to perceive contract violation and is willing to actively protest. Younger and better-educated employees are more likely to question the status quo possibly leading to more adverse comments for the personnel file. Absenteeism and lateness also constitute symbols of protest. Thus analysis of grievance rates, accident rates, requests for transfer resignations and disciplinary cases may reveal general patterns that are not apparent in any one instance.

**Suggestions Boxes**

The usual type of suggestion system has been already discussed. The type referred here may be called a 'gripe' box. The company that establishes an anonymous gripe system is concerned with the problem of origin of all conflicts of interest to light. Anonymity may provide he courage to submit a dissatisfaction that will otherwise go unvoiced.

**Open Door Policy**

The open door policy is commonly announced but seldom works. As it is usually established a top-level executive announces that the door is always open to any one who would like to discuss anything with him. This technique of discovering dissatisfaction apparels only to the top-level people and this could well use the established grievance procedure. Most employees recognize the policy for the window dressing it is. They are actually aware of the obstacles as well as of their won deficiencies in dress, speech and manner, which make it impossible for them to walk through the door. The policy sounds good and democratic, but it is generally ineffective.

**Personnel Counselors**

Some of the larger organizations hire trained psychologists to act as counselors for their employees. Normally these counselors are members of personnel department. The counselor's rationale for a counseling system is somewhat similar to that of the 'gripe box'. When employees do not wish to go to a superior, they can go to a person outside the chain of command who will protect their identity and confidence'. It takes time to build up and atmosphere of impartiality and trust about the personnel counselor, Who is often considered as member of management in a staff capacity.

**Exit Interview**

If the conflict or disagreement is so great that the employee resigns, the exit interview provides one last opportunity to discover the nature of the complaint. The exist interview, however is very difficult to conduct effectively. The nondirective type of interview is usually preferred if the employee is quitting because of some dissatisfaction with the company he or she is usually very reluctant to discuss it. There is little to be gained from the normal discussion with such an employee. Consequently the exit interviewer must exercise skill in getting to the true reason for the resignation, and often the interview itself does not reveal the reason. The statistics gathered by department over a period of time frequently uncover general sources of difficulty.

A research study, which covered 426 companies, revived the fact that approximately 70 percent required an exit interview upon separation from the firm. The announced objective of the interview included possible improvement of personnel practices, counseling of the employee, attempting to identify weal supervisors within the firm, and general public relations value. A few companies have found that an exist questionnaire mailed after three months produced a substantial amount of information. By this time the employee usually has obtained another job and no longer fears about any kind of reply.

**The Ombudsman**

An organizational patch that is attracting increasing interest among management theorists is the ombudsman or ombudswoman. This is a special position in that one acts, not on the right arm of the president of an organization but rather as a additional set of ears. In effect one operates a complaint office to which individuals may go when they feel that they have exhausted the more usual means of, receiving an acceptable hearing. An ombudsman has only the right of acceptance or rejection of such complaints. In the event of acceptance the holder of this unusual position has rights of investigation and recommendation to responsible organization officials. Failing satisfactory resolution of the conflict in this direct manner, a recommendation can then be made to the president of the organization.

Though the concept has existed for about 150 years only recently have some American business firms set up the post or ombudsman and ombudswoman. A number of American business firms recently introduced this system. In one major unit of General Electric Company some 300 cases were processed in one year with the most complaints centering around salary, performance appraisal, lay off and fringe benefits.

**Miscellaneous Channels**

Numerous other channels of upward communication have been utilized at one time or another as a means of bringing conflicts of interest to light. Group meetings or gripe some supervisors who have the courage and balanced perspective to solicit complaints publicity conduct sessions. An individual acts differently in the company of others than when alone and a group meeting may simulate the submission of gripes that otherwise may

be repressed. The keystone of teamwork in some firms is a monthly meeting in all departments involving every employee. Unsolicited letters sometimes constitute an additional channel. One firm utilized a blackboard in a manner similar to the gripe box method. The complaint or rumor was written on one side and the management wrote an answer opposite A on the other. In addition to interviews of the exit types scheduled interviews of the present employees can be conducted to attempt to discover the source of difficulty. Finally on rare occasions the informer has been used. The employment of lab our spies is not to be recommended, but this technique utilizes a basic principle of communication. In order to understand people, they must be studied where they stand, in their customary social and political environment. Though an employee may have the best intentions in utilizing an informer, that is, of wanting to know why employees truly believe without thought of reprisal or punishment, the practice is highly objectionable to all concerned.

**The Source of Conflict**

We have already defined the term grievance elsewhere. The definition of grievance often varies from firm to firm. The broadest interpretation of the term would include any discontent or dissatisfaction that affects organizational performance. As such it can be stated or unvoiced, written or oral, legitimate or ridiculous. The manager has to be concerned with all discontent regardless of a personal opinion of their validity. Many distinguish between a complaint and a grievance. A complaint is a discontent or dissatisfaction that has not as yet assumed a great measure of importance to the complainant. Complaints are often submitted in a highly informal fashion. An employee may complain that it is too hot in the shop that another employee will not agree with the complaint. A complaint becomes a grievance when the employee feels that an injustice has been committed. If the supervisor ignores the complaint and the dissatisfaction grows within the employee. A usually assumes the status of grievance. A grievance in business organization is always repressed, either verbally or in writing.

**Conflict occurs when two or more people or groups perceive that they have:**

1. Incompatibility of goal and
2. Interdependence of activity.

Unless one believes in a utopian world where all interest are additive, overlapping and compatible one must, admit to possible conflicts accompanied by deliberate behavior characterized by indifference and blockages. Employees and organizations need each other and are therefore interdependent. Employees and organizations have some values that confirm example the ego versus control, self-actualization versus division of labor and freedom versus efficiency.

The traditional managerial approaches to conflict are one of suppression and elimination. Conflict is the antithesis of co-operation and organization. Behavioral scientists have recommended a philosophy of acceptance; conflicts should be uncovered and ultimately worked through for betterment of all. Both appear to agree that the final goal is the elimination of conflict they merely disagree on means.

In a contingency approach to managing it is envisioned that conflict can be both good and bad depending upon the situation. One, reputed organization (The Penn Central Railroad) went quietly bankrupt with its board of directors offering no conflictive and challenging questions to management. Small-group research has demonstrated that when study groups are formed in which a devil's advocate was placed to challenge dominant positions, more analysis and better decisions resulted Yet when one member was allowed to be dropped from the group, it was always this conflicting person who 'got' the axe. Thus rather total suppression or total acceptance of conflict, managers should accept the inevitability of conflict, recognize those reactions that are helpful to organizational renewals minimize reactions that interfere with and block attainment of legitimate goals.

The research studies in the USA establish the fact that almost all the successful managers had the negative attitude towards confrontation with the employees, Despite the behavioral views of the efficacy of the problem solving confrontation approach, the facts of organized life do indicate that we are often unable to achieve the answer that maximizes competing values simultaneously. We can agree that with drawl or avoidance as well as smothering over real conflicts are not viable methods of handling this type of problem. However, compromise is often the result of collective bargaining process between two groups of equal power such as labor and management Neither may be completely happy,

but co-ordinate activity is allowed to continue. When the parties are unable to reach a solution either through the process of problem solving or compromise third parties may enter the scene. In such case arbitration is placed just above compromise, when time for conflict resolution is limited or when basic conflict resolution is limited or when basic values are directly conflicting methods of resolution that are less than the best are often conflict among people and between people and will occur. It is important to discover these clashes of interest as quickly as possible through such means as gripe boxes, direct observation behavior analysis of records, an open door attitude, personnel counselors, morale, surveys, exit interviews, ombudsman and grievance procedure.

A grievance is a complaint that the employee feels is serious enough to justify some type of formal submission and action. It may be ridiculous or justified, but whether or not is a grievance is up to the employed and not to the employer. The usual steps in a grievance procedure are:

1. Conference among the aggrieved employee, the supervisor and the union representative
2. Conference between middle management and middle union leadership.
3. Conference between top management and top union leadership and
4. Arbitration.

The manner of processing the grievance on any one level should follow the sequence of functions in the scientific method that is

1. Receive and define the grievance.
2. Get the facts
3. Analyze and decide
4. Apply the answer and
5. Follow up.

The grievance procedure is the most fundamental method of discovering and resolving disagreements since both follow the chain of authority and provide for conference and discussion.

Just as the individual makes certain demands upon the organization so the organization expects certain things from its members. Codes of behavior are established

for those individuals who do not choose to conform to the codes, negative disciplinary action must be applied. The supervisor should seek to condition behavior and not merely to-punish in the application of penalties the following guides have been found to be valuable:

1. Disciplinary action should be administered in private
2. An application of a a penalty should always carry with it and explanation of what constitutes proper behavior.
3. Disciplinary action should be applied by the immediate superior
4. Promptness is important in the taking of disciplinary action
5. Consistency in penalty highly essential
6. An immediate supervisor should never be disciplined in the presence of his or her own subordinates and
7. After the disciplinary action has been taken the manager should attempt to assume normal attitude toward the employee.

The basic method of conflict resolution advocated by behavioral scientists is problem solving and confrontation. Other commonly used approaches are withdrawal smoothening, establishing super subordinate goals, compromise, meditation, arbitration and forcing. The conflict must be managed to produce term organizational effectiveness.

**Conflict Free Organization**

As Karl Mannheim has said the advantages of modern organizations lie mainly in their tendency to increase group rationality by placing power and authority in relatively few hands. This permits the major policies to be determined with limited conflict cod considerable finality- Once this has been done the energies of the entire organization can be devoted to the task of carrying them out. Centralized authority and conclusive resolution of the essential value question, what is to be done is thus the major operational advantage. But this leaves unanswered questions about its operational efficiency, the effect of oligarchic decision making upon morale, and about the caliber of decisions reached without full participation. In the American economic sector while productivity is perhaps overhead costs and the tendency to pass costs along to the consumer in the form of

constantly, rising prices, raise questions about the efficiency of the typical corporate structures. In Government of course, while a great deal of lip service is paid of management techniques in service training for executives and the like,' efficiency' is essentially a caustic symbol enjoying perhaps the same operational relevance as another honorific spook 'the public interest '.

The 'conflict free' assumption also provides psychological gains, reinforcing authority by the implication that the revealed decision is the 'one best way', scientifically achieved in line with the experience, inside information and knowledge possessed by the organization's leaders. Patent conflict by contrast suggests that since equally wise and expert people can disagree on an issue, there is some question about the very existence of objectivity superior alternatives and of the organization ability to uncover them. In this sense the basic premises of organizational logic and effectiveness are challenged by conflict.

The strategic advantages of conflict repression are also apparent in the intervening struggles among the various units of the organization Here too dissent is confined within the unit enabling the latter to present a united front, in its endless competition for a larger share of the organizations resources. Elites have a direct stake in such consensus because an inability to maintain equilibrium and its attending competitive advantages brings disapproval from higher echelons which also desire to convey upward and image of cohesion within their larger sphere. The weight of such expectations is shown by the fact that the gravest offense in bureaucratic society is to go over the head of one's superior to reveal conflict to outsides.

The 'conflict free' assumption is also undercut by the inherent tension between authority based upon hierarchy and that based upon the expertise of the many specialists found in the typical big organizations. Each element tends to define its own role as the ultimate basis for authority must reside at the top because the desperate skills, training and professional introversion of specialists require some disinterested and superior coordinating presence. On the other hand specialists will not always gram that those in formal positions of authority fully merit the authority, which they usually possess.

While the intensity of this conflict varies, it is to some extent a built in characteristic of all bureaucratic settings instead of defining organizations 'conflict free' one might better regard of defining organizations' Conflict free' one might better regard them as arenas in which conflict is endemic. Nevertheless, the system of centralized authority and the administered consensus found in modem organizations undoubtedly results in certain operational advantages.

**10.4 Performance Appraisal**

Official can be prompted to take note of each significant element of performance. The same form could be used for policeman, stenographers, teachers and nurses. Each occupation calls for quite different kinds of tasks and there are vastly different criteria for and ways of observing their effective or poor accomplishments. Another problem is that of assuring that the performance or on the job behavior reported is representative and not exceptional. It is very easy to recall the exceptional and to overlook the normal.

Performance appraisal is one of the oldest and most traditional practices of management. It refers to all available formal procedures used in working organizations to evaluate the personalities and contributions and potential of employees. Modem organizations do not use term 'merit rating' widely today. The trend nowadays is in the direction of attempting to measure what the employee does (Performance) rather than what he is (merit). It is the employee's performance not himself that should be the subject of analysis. In spite of the common sense of this statement as it appears to us now, the fact is that traditional rating system focused the supervisors attention primarily on personal traits and characteristics of people rather than on the actually of what they did. Thus emphasis was placed directly on such items as fact, initiative, integrity, ingenuity, dependability and the like. The alternative, and the one more commonly stressed now-a day is to require evaluation simply of actual and concrete achievements or behavior on the job without trying to translate this into a picture of the employees personality. This approach is, of course, consistent with the concept of management by objectives where in evaluation is concentrated on results, not just on technique. Generic traits are less likely to be known to and understood by the what emerges from the employee's mind or hands as a work product. Hence, the reporting system that is likely to evoke the most reliable is one of the

tasks supervisors to cite and measure specific instances of performance in terms of what the job demands are.

There are to be sure some difficulties with trying to report actual performance and specific behavior, Most important, it requires that rating forms be geared to each general category of work. so that the reporting official can be prompted to take not of each significant element of performance. The same form could not be used for policeman, stenographers, teachers and nurses. Each occupation calls for quite different kinds of tasks and there are vastly different criteria for and ways of observing their effective or poor accomplishments. Another problem is that of assuring that the performance or on the job behavior reported is representative and not exceptional. It is very easy to recall the exceptional and to overlook the normal.

About the only solution to this problem is to maintain a constant campaign against the tendency through written instructions on the evaluation process and through training programmes for supervisors.

**Purpose of Appraisal**

Proper appraisal programme serves useful purposes. It can serve as a basis for job change or promotion. For the purpose of deciding about suitable training and development programme this will be useful. It also serves as a feed back to the employees who came to know their actual position through this appraisal. It serves as an important incentive to an the employees who are by the existence of an appraisal system assured of the managements continued interest in them. When such a programme is really accepted that will make the supervisors and executions more observant of the subordinates since they have to assess the trains of the subordinates. This programme also provides the rational foundation for the payment of piecework wages, bonus etc. It also serves as a means for evaluating the effectiveness of device used for the selection purpose.

**Factor Affecting Performance Appraisal**

Before finalizing the programme of performance appraisal it is always advisable to make a preliminary survey of the following constraints within which the employees of an organization are working.

**Environmental Constraints**

There are several environmental constraints, which may be outside the control of a worker, and to ignore this fact in judging his performance would be wrong.

**Organizational Leadership**

The nature of the leadership of the organization should also be considered. If the leadership is not dynamic and effective the appraisal may appear to be imposition or strictures.

**Interdependence of Sub-system**

Organization being a total system composed of number of inters dependent sub-system the success or failure depends upon the effective functioning of all-system.

**Organizational Structure**

As far as the structure of organization is concerned the 'organist structures, tend to have quite flexible organizational consciousness. There is minimal formal organizational consciousness. Elaborate organization charts at manuals are usually nonexistent. In rapidly changing environments such structures can quickly maneuver themselves into vantage positions to confront new situations. This dynamism makes such structures readily responsive to innovations of all kinds. Mechanistic structures tend to be rigid. A formal awareness of the structural pattern pervades such organization as shown by readily available organization's blue prints and the like. By implications these structures tend to be static and are designed to carry out a nearly fixed strategy in relatively stable environment. Initiative drive and imagination are not the qualities that receive encouragement in mechanistic structure.

**Criteria of Performance Appraisal**

1. The Employee should be made aware of the performance in terms of goals, targets, behaviors, etc., expected of them – A personal equation between the evaluator and the evaluated has to be developed to achieve mutual understanding of the criteria of evaluation.
2. The employees should be encouraged to express themselves freely on the performance reports.

3. It is believed throughout the organization that the appraisal system itself is job-related, performance based uniform and non-variable, fair, just and equitable; there is a general belief in the organization that appraisers are honest rational and objective in their approach, judgment and behavioral orientations.
4. Supervisors responsible for performance appraisal should be well trained in the art and science of performance appraisal to ensure

uniformity, consistency and reliability. The ultimate success for evaluation rests with the evaluator, it does not depend on any system perfect a support it may ensure.

5. Performance appraisal reports should be examined meticulously before taking any positive or negative action-
6. To promote intra and inter-governmental consistency and uniformity, line and staff coordination should be ensured.
7. There should be provision for appeals on appraisals to ensure confidence of the employees and their associations unions.

**Objectives**

Objectives can be discussed under four heads.

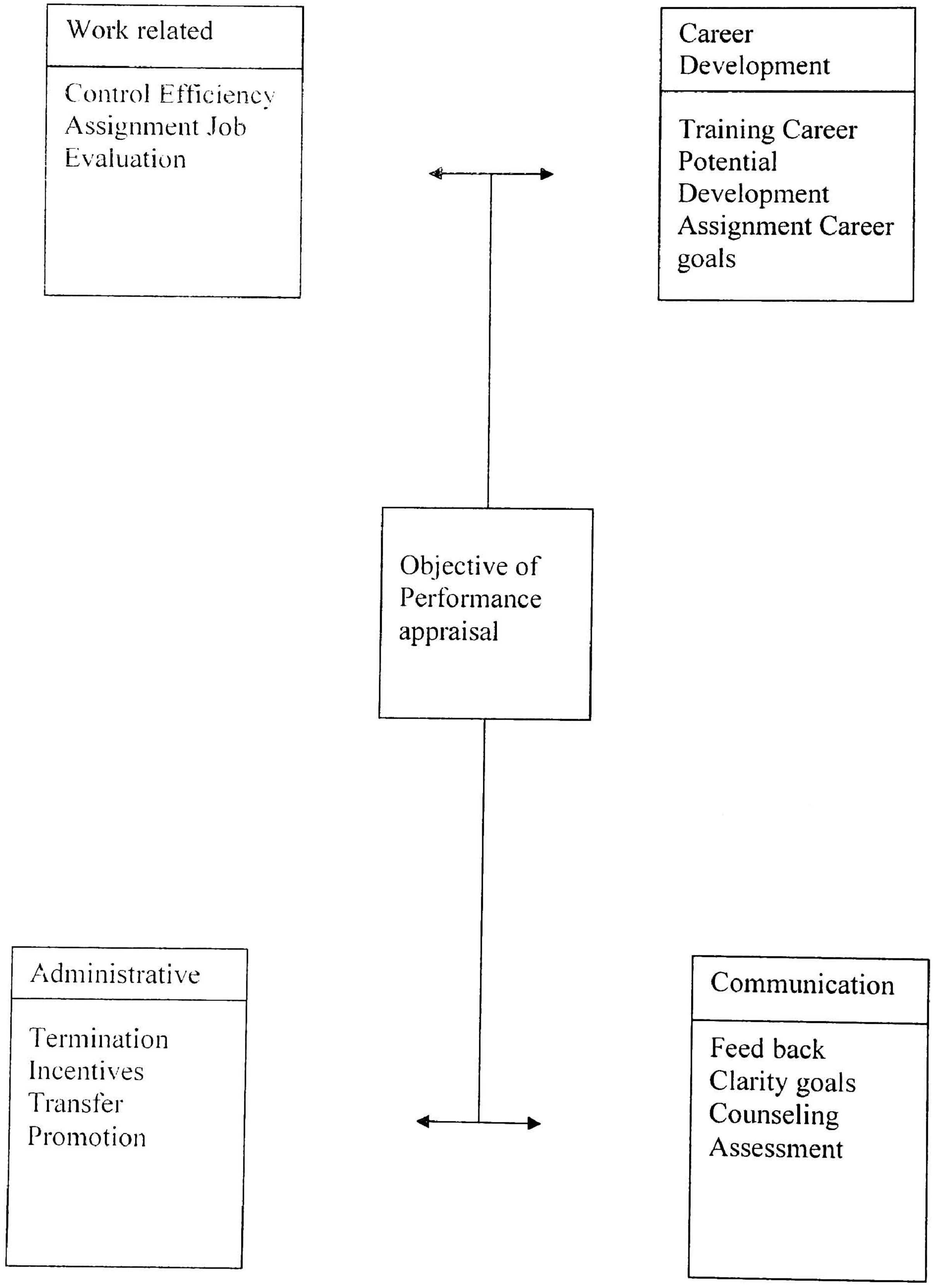
1. Work-related objectives

   i) To provide a control for work done;

   ii) To improve efficiency,

   iii) To help in assigning work and plan future work assignment; and

   iv) To carry out job evaluation.


Work related
Control Efficiency
Assignment Job
Evaluation
Career
Development
Training Career
Potential
Development
Assignment Career
goals
Objective of
Performance
appraisal
Administrative
Termination
Incentives
Transfer
Promotion
Communication
Feed back
Clarity goals
Counseling
Assessment

ənt objective

o identify strong and week points and encourage finding remedies for weak points through training.

To determine career potential;'

To plan development (promotional or lateral) assignments.

ii) To plan career goals:

ctives of Communication

i. To provide adequate feedback of performance.
ii. To clearly establish goals i.e. What is expected of the staff members term of performance and future work assignment.
iii. To provide counseling and job satisfaction through open discussions of performance; and
iv. To let employees assess where they stand within the organization – in tam of their performance.

4. Administrative Objectives

v. To serve as basis for promotion or demotion;
vi. To serve as basis for allocating incentives;
vii. To serve as basis for determining transfers; and
viii. To serve as a basis for termination in case of reductions of staff.

If appraisal system is to achieve the four major objective outlined above, appraisal content should include work-related components and career related components, appraisal forms should provide a section on each of these; appraisal forces should stimulate communication appraisal content; follow up action is required after appraisal to ensure that appraisal results are taken into account in administrative decision making, and finally,

appraisal systems should be evaluated from tune to time to determine if the four major objectives are being achieved.

Methods of performance appraisal-There are two types of methods:

**Traditional Methods**

There are a number of systems for measuring the performance of employees.

1. Graphic scale
2. Ranking
3. Forced Distribution Method
4. Critical Incident Method
5. Forced choice Rating Method
6. Group Appraisal
7. Nomination
8. Work Sample Tests
9. Result Oriented performance Appraisal system
10. Confidential Reports.

**Graphic Scales**

It is very widely used. In this method the rater places a checkmark on a form next to the word or phrase describing the degree of merit for each of several different traits such as quality of work, dependability, attitudes, and so forth. Many scales designed by different persons are available winch can be modified to suit the different situations. For example, J.B. Probst, former, Chief Examiner of the St. Paul Civil Service Bureau has adopted, a comprehensive list, winch has been used in modified form by different organization. A major problem with graphic rating scales is that words like 'excellent', 'poor' and the like mean different things to different people. Whichever method is adopted the following should be kept in mind for selecting trait for merit rating:

1. Operability – can the rater actually observe this trait in action?

2. University is the trait under consideration on important characteristic in successful performance of all the jobs to be rated?
3. Distinguish ability-is the trait under question clearly distinguishable as something different from another trait with a different name?

**Advantages of Graphic Scale**

i) It is less subjective as it considers number of different traits or aspects of men rather than single total evaluation.

ii) Traits are defined so that the ambiguity is less. iii) It also, shows the degree of each trait and hence is more mathematical. Disadvantages It is difficult to I) Decide about relative weight age of different traits Validate the opinions.

iii) Ensure uniformity as the rating would differ with different raters;

**Ranking**

Persons of similar are ranked in order of merit e.g. if three arte eight lectures in a college they can be ranked as 1,2,3,4,5,6,7,8. It is very simple and natural but the task of ranking becomes difficult when 20 or more cases are involved. One of the techniques of ranking is paired comparison. In this method, the rater compares each man with every other man in the group. The final ranking is determined from the number of times, the rated was judged better than others. The method is not suitable when a group is large because in that case, the number of judgment becomes excessively large.

**Forces Distribution Method**

Here, the individuals rated are distributed alone or more scales and fixed percentages of employees are assigned to the best and worst ends of the scale and to the middle bracket. In this system a five point scale, for job performance whereas the other and poorest job performance. The supervisor is asked to allocate approximately (10:20; 40:24) 10 percent

of his men to the best end of the scale, 20 percent in the next category, 40 percent in the bracket next to low end and 10 percent in the low bracket.

| 10 percent | 20 percent | 40 percent | 20 percent | 10 percent |
|---|---|---|---|---|
| Poorest | Poorer Than average | average | Better than average | Best |

**Job Performance Scale**

**Critical incidents Method**

It involves keeping a record of exceptionally good or bad incidents occurring in an employee's work. Such good or bad incidents can be examined to ensure the ability of the employers. It is not necessary dig bad incidents means low ranking. The main dung is as to how the employee being rated has dealt with the bad incident under the given circumstances.

**Forced Choice Rating Method**

In this technique, the rater is asked to select one statement out of two to four, which is the most characteristics of the rates. Only one of the statements is correct in identifying the better performance and his scoring key must be kept secret from raters. In effect, the forced choice system represents an attempt to devise an objective method of arriving at the same answers that the top management reached after due deliberation. For example:

A. Commands respect by most characteristic Least characteristic his actions.
B. Cool headed
C. Indifferent
D. Overbearing

Two of these are relatively favorable terms and the other two relatively unfavorable. One of the two favorable terms checked as most characteristic gives plus credit whereas selecting the other gives no credit, Similarly, picking one of the two unfavorable, items as best characteristic adds plus credit, whereas other add nothing.

However, the construction of these grades and the determination of the scoring key are very crucial in the determination of a rating scale of this type.

**Group Appraisal**

The appraiser group consists of 34 persons including the immediate supervisor. Assistance from other is taken in covering other points which have not been taken note of by the immediate supervisor. However, the members must be people who have some contact, with appraise. These members can be mangers on the high level or his colleagues or subordinates or a combination of them-Colleagues when associated can prove to be either rivals, or personal friends and hence can be biased. There can also be cliques of mutual appreciation. As far as subordinates are concerned, they may not see the total picture and judge the person only from their angle. They may also be afraid of saying anything against the supervisor who can take revenge against them. We must, therefore, use group appraisal cautiously. It is always better to involve their superiors rather than colleagues or subordinates.

**Nomination**

Appraisers are asked to identify the exceptionally good and exceptionally poor performers who are then singled out for special treatment.

**Work Sample Tests**

In this method workers are given, from time to tune work related test which are then evaluated.

**Result Oriented Performance Appraisal System**

In most of the government departments and public enterprises in India, performance appraisal is done through annual confidential reports. These reports differ from department to department and from level to level. A very casual attitude is found among raters while filling confidential reports of the employees working-under them. Confidential reports combine different technique of rating discussed earlier.

The confidential report is written for a unit of one year and relates to the performance, ability and character of the person during that year. The most important factor on winch the success of confidential report depends is objectivity. The essential features of the method of preparation and communication of confidential reports of officers under the administration control of the government are:

i) Annual confidential remarks are recorded with a view to judge the performance and efficiency of officers in public service.

ii) The object of maintenance of character reports is to put an officer on proper line by pointing out the defect.

iii) Adverse entries should be communicated to him timely to enable him to rectify the defect.

iv) From December 4, 1946, till April 29, 1966, both remediable and irremediable defects were being communicated. From 1966 irremediable defects touching integrity and morality are not to be communicated.

v) Confidential character role recorded by reporting officers is to countersigned by superior authorities in certain cases as indicated in the latter.

vi) The countersigning authority may take a view different from that of the former will prevail.

vii) Until countersigning authority given his remarks, the character roll is not complete and is not to be acted upon.

viii) Tune schedules have been prescribed in each case for recording remarks at different levels and to submit them to government for maintenance of confidential character roll.

ix) Representation against adverse remarks will not ordinarily be entertained as the very purpose of such communication is to enable the officer to know his Wings to rectify them and the officer should profit by it. They communication should not be taken as a matter of argument of enter into controversy.

x) In rare cases, however, where the remark is on specific facts or is obviously the result of a mistake on the part of the reporting officer, representation lies.

xi) The views of the superior officers on the representation must reach the government within two months of the date of filing of such representation and the representation is to be disposed of by government within three months from the date of receipt of the same.

Confidential reports have a far-reaching influence on the career of employees since their future prospects depend on such reports and, therefore, these should be handled scientifically. It need not be emphasized that the remarks such as 'good', 'very good', 'satisfactory' 'fair', etc, cannot be construed to have been made-with exactitude because each one of these different objective carries with itself different shades of meaning having a great subjective content therein.

**Evaluation of the Methods**

1. Performance is not evaluated in terms of its impact on objectives, goals and targets. It however, focuses more attention upon personality of an individual rather than upon what he is expected to do, or upon results achieved.
2. Appraisal tools lack reliability, validity, and are mostly subjective and that is why ratings and raters are subject to organizational influences. Raters display biases.
3. Results of appraisals are not utilized to correct the behaviors of the employees rated low to assist individual development. There is also no scope for counseling the employees rated low through performance appraisal.

Counseling the employees on his past performance with a view to influence his behaviors in future is the prime objective of the counselor.

4. The existing performance appraisal techniques hamper effective communication between appraiser and appraise personnel are not taken in confidence and they lack understanding of the criteria upon which their performance is appraised. This increases the psychological distance between diem.

**Modern Method (Management By Objective MBO Approach)**

Results oriented appraisals or MBO Management By Objective is 'a system wherein the superior and the subordinate, managers of an organization jointly define their common goals define each individual's major areas of responsibility in terms results expected of him and use these measures as guides for operating the unit and assessing the contribution of each of its members'. The main steps in the proceeds are:

**Determination of the key Result of the Organization**

The first step is to decide the key result areas of the organization in which positive results are required. It is also necessary to define standards of performance in these areas in respect of quantity, quality, time and cost A performance appraisal system has its genesis in the broad purposes of the organization. After defining the key result areas of the entire organization, the general purpose of the system must be translated into meaningful objectives for each unit within, the organization. After this, the specific goals for each position in a unit must be clearly analyzed.

**The Key result areas:**

a) Should be identified by the appraise and the appraiser.
b) Once identified should not normally be changed during the year.
c) Should not normally be more then 4/5 and should distinctly characterize the appraiser's job. Stated otherwise they should be those tasks for winch the appraise can normally be held responsible.

d) Should be realistic and achievable. An element of challenge has to be willingly built into them so that the appraised stretches for his own good and organizational excellence.

**Performance improvement Guide for all Positions**

The position design determines the result winch the organization expects the holder to achieve. It sets out targets defined quantitatively, for improved performance. The basic idea behind written requirements for each position is that they specify the relevant duties, responsibilities, relationship, and qualifications needed for their performance.

Under the new approach popularly called 'Management by objectives' each subordinate is requested to establish for himself, short term performance goals or targets. In any event, it is necessary that all subordinates' targets for improvement must be discussed with their superior, so that he can coordinate the targets' thus avoiding any clashes between the efforts of different individuals and ensuring that all members of his staff have the same understanding of the direction in which the department is trying to progress. O.A. Ohmann has said that, 'this procedure gives the subordinate an opportunity to make his own evaluation of the operation results. When he is discussing results he is actually appraising himself and probably gaining some insight on how he might improve Ins own attitude, methods, or behaviors.

**Appraiser and Appraise Records Observations**

The appraiser records performance of his staff members against the norms already set in well designed appraisal forms. There is also a provision for self appraisal by the incumbent of his performance. The self appraisal process assists the subordinate to analyze his performance and help him to identify Ins strengths, weaknesses, and potential as well as to help him to make plans for improving his performance.

**Performance Progress Review Conference**

Once the performance appraisal are completed by the appraiser and appraise, the next step in the appraisal process is the performance progress review conference. One of

the purposes of the progress review conference is an exchange of information between the appraiser and appraise about the latter's performance.

**Individual Development Programme**

Based upon the performance-appraisal reports,, a plan can be developed jointly by the appraiser and appraise identifying specific performance targets for the development period and description of specific approaches for improving the performance of the subordinates.

**Post-Development Programme Review Conference**

It is designed to check the results of the individual development programme and to establish new or modified targets for the ensuring review period.

We can thus say that MBO is a diagnostic tool for self criticism in the first place, then an action programme for change and improvement and finally a tool for implementation. W.B. Oastelter has rightly said that although there is a considerable amount of knowledge and understanding required to plan, organize, implement, and operate a performance appraisal system, the application of the process need not be complicated. It has been said that there is an inverse relationship between the amount of paper work involved in the appraisal process and its effectiveness. Consequently, the emphasis of the appraisal process should not be on an elaborate system of forms, procedures and reports. The focus of this approach is the self development and self-realization, of personnel.

This approach has several limitations. The procedure is impracticable in situation where top personnel are not interested in involving their subordinates. Besides the approach stresses only on tangible goals missing intangible goals like honesty, quality.

**10.5 Career Development**

Career is an old term in the field of management of public and private business. It has been widely used to denote the progress of an individual in a field of work throughout

the employable years of his life. Sometimes it means devotion to a specialty; some other times it is about a series of employments which are only loosely related to each other. In either ease it usually implies some degree of success.

A career system is one in which a hierarchically organized group includes posts at different levels. The whole professional life of the employees under this system is utilized profitably from one level to another whereas in position or contract system the official is recruited for a particular job. Which he will occupy throughout his stay in the organization. The recent trend in general is in favor of career system.

Career system is a guarantee of efficiency and integrity and a shield against patronage and political pressure. Of growing importance in the development of career system patterns is the recognition of the public service and a place for parts of careers as well as for some life time careers. Modem public personnel must concern itself with the patterns through which careers operate. There is every possibility to raw a couple of question in this regard. Should they be monolithic, providing lifetime service is one organization in one place? Should they involve all units in a particular state government municipality or other government entity? Should the public service be viewed as a wholly distinct place for careers is contrast to private employment education or the professions? Can careers best operate within the scope of position-classification scheme or will they flower only under plans like those used in military services. Obviously there could not be single right answer applicable to all situations. Conditions imposed by the breadth and limitations of given occupations, size of organizations personal interests of individuals, methods of compensation, status and prestige tenure and various other factors all combine to influence what career system patterns should be like and what they can be like in a given situation.

**Classes of Career Systems**

Career systems may be classified roughly according to their scope, their limitation on entrance or their orientation for reward and rank. Programme careers: it is career

system built on the idea that men are going stay in a certain programme like insurance, Highways, Construction, Employment service, scientific service etc.

**Organization Careers**

Under this system the employees are permitted even encourage to have their free movement among various programmes throughout a large diversified department or among various agencies in a government jurisdiction.

**Closed Career System**

Closed career system is based on the principle of low age limits for entering service and the filling of upper level positions almost entirely from within.

**Open Career System**

The open type of career system permits entrance at any or all grade levels by rank or position. Entrance is of course governed by whatever qualification requirements and competition a jurisdiction prescribes for each category.

**Job Oriented career system**

The third major classification of career system is by their orientation as to rank and status, in this type the focus of the plan is on the assignment, the job to be performed and the individuals- Such careers may across departments programmes, even occupation. This is also called as rank in job career system.

**Rank in-Corps System**

In this type usually in conjunction with a more or less closed entry policy the focus is on the person. Assignment, training utilization, rank and recognition are viewed in terms of the individual and the corps to which one belongs rather than in terms of hierarchy of position. Rank has more to do with length of service, relationship to others in the same group and general aptitudes demonstrated than to level of job occupied or to performance on a particular job.

**Various Steps In Career Development**

a) Selection, on the basis of propose or potential for growth as well as of capacity to meet the changing needs and challenges of new functions in an organization.

b) Training to assists the person, timely preparation for changing work requirements, through the acquisition improvement and adaptation of knowledge and skills in order both to further organizational goals and to promote individual growth and job satisfaction.

c) Mobility to assist flexible development of personnel resources according to need as well as to promote the self-actualization of individual staff and to enhance their value to the organization through their progressive exposure to different tact's of its work-,

d) Promotion by merit to stimulate to assist and to reward high quality performance and individual growth.

e) The establishment and implementation of a unified staff policy embracing both field and headquarters staff.

f) The implementation of a policy or systematic rotation of staff within units to provide training and experience of kinds and at various levels.

**Benefits of Career Development**

1. This process helps the staff members to discover his own talents needs and motives related to work.
2. It helps to fulfill the individuals need to know what his position and future in the organization will be.
3. It provides a sense of affiliation with the organization and a feeling that the organization is interested in the staff member's development.
4. It provides greater opportunity for the individual to obtain return for his personnel investment.
5. It provides the individual with a greater awareness of his work environment and hence promotes more intelligent decision making with respect to careers and avoids frustration caused by lack of career information.

6. It helps to fulfill the individual's need to retain a sense of control over his personal destiny in the increasingly complex and impersonalized modem industrial society.
7. It provides greater opportunities for change in the working environment that would otherwise head to boredom;
8. It is conducive to job satisfaction by providing assignments most suited to the individual needs and talents.
9. It leads to optional personal development by developing abilities and aptitudes to the full.

**Benefits of Career System to the Organization**

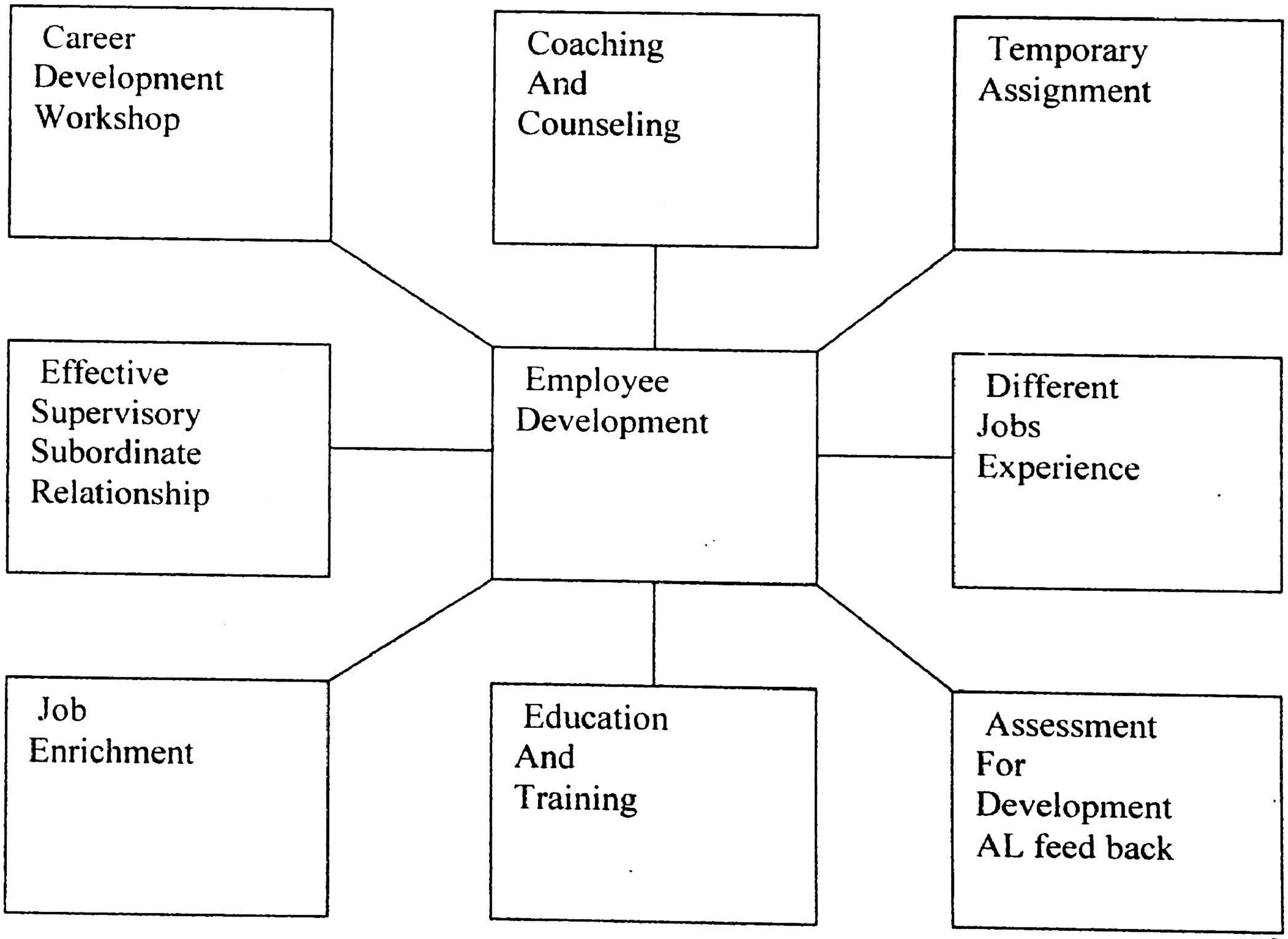
It helps increase efficiency. reduce the turnover of high potential staff and absenteeism. facilitates staff mobility by planning assignment well enough in advance, to provide greater assurance of an adequate supply of qualified personnel for future openings in managerial, technical and other key positions. It promotes continuity of organization knowledge by drawing more open internal personnel resources. It also helps reduce pressure of job classification and other personnel system resulting from frustrated careers it provides an added input in programme planning by offering more data on the capabilities of the workforce which in turn permits a better judgment to be made of whether or in what manner proposed programme objectives can be accomplished. It prevents organizational chaos by helping to provide a more regulated ordered and objective procedure for upward mobility of staff members. It promotes optimal, utilization of human resources of the organization. It also contributes significantly to the reduction of casts.

**The issues of Career Development Process**

There are two major concerns that a human resource policy must address when considering ways of employees. The first is the question of how to define and evaluate performance effectiveness. The second is the matter of employee and career development. After selection employee development is one of the key methods, available to organizations for ensuring the mix of skills needed to be competitive in the future. In short it is a key strategy for organizational survival and growth. Many organizations engaged in scattered,

uncoordinated or even consistent developmental activities that are poorly suited to the developmental needs of individuals or to the organizations strategic needs. Training departments plan programmes and market them internally in accordance with their perceptions of developmental needs which do not always coincide with strategic goals of the company of individual employee needs.

The challenge then is to stimulate and guide an essentially individual developments process in a way that is consistent with corporate needs. The most effective approach is for general managers to create a context that encourages employee development in directions that meet corporate needs but does not over determine the direction of any given individuals development.




**(Source: S.K. Bhatia, The Hindu 28, April 1988)**

The figure here illustrates the multiple tools that must be properly mixed and sequenced by the base and employee working collaboratively to enhanced by the base and employee working collaboratively to enhance the employee development- Organizations need to make a list of these tools to make them known to managers and to develop plans for their use. Education programmes being easier to inventory than job enrichment programme are more frequently used But, it is the competence of the boss in. performance appraisal coaching, counseling, modeling and supporting dud is the key a programmer's success.

Therefore, if career" development is to occur in an organization, general managers must find ways to select, train and reward so as to build these developmental skills. Some organizations are supplementing the managers role in coaching and counseling with a staff of personnel specialists trained in this task. Career development workshops are also used to vide participants with a guided experience in exploring their interest and aspirations.

What general managers might create to encourage employee career development can be discussed here.

**Philosophy**

In some companies few resources are available for education and career development, and managers do not lend much time, discussing performance or doing some career planning in others considerable emphasis is placed on these activities.

For a career development process to be encouraged centrally but not worth by controlled managers throughout the organization must share a belief that employees development is important and will be rewarded. The organization's leaders must articulate this shared belief. They must provide a model for effective career development in their relations with subordinates and they must explicitly and visibly reward managers for developing people.

**Career Opportunity Information**

To ensure that employee development is successfully linked with an organization's strategy, the organization must encourage such development in directors required by the strategy. Are technical skills likely to become fewer values in the next five years as compared with general skills? Will the company be placing more emphasis in the coming years on the interpersonal and behavioral skills of its managers? Is it likely to need a more aggressive sales force? Will competitiveness hinge on low costs, efficiency and productivity?

**Career Paths**

Career paths an organization make available to its employees have an important influence on the extent and nature of few development on way to characterize career paths is in terms of whether they encourage functional or technical specialization or cross functional mobility. Investigators of organizations that they have developed few generalists capable of becoming general managers product or project managers individuals were brought in at the bottom of a function and promoted within it enabling them to retain a specialist's view.

In each organization there are some career paths that are more valued than others. The valued track can be managerial (referred to as cross functional above) or technical. Typically managerial jobs are more valued for the status, power and monetary rewards associated with them. Attracted by these rewards, individuals in technical jobs often attempt to switch careers and seek managerial positions though their skills and or interests may be in their technical specialties. An organizations needs to examine the career decisions that its internal job market, encourages to determine it, these are consistent with as strategy and needs for employee competence.

Traditionally skilled workers and clerical and technical employees have not had much opportunity to progress to challenging jobs. Locked into their posts, their on the job enthusiasm and capacity for learning and growth declines in resource, some organizations have attempted to stimulate growth and commitment through job rotation or job

enrichment. Others have designed skill, based pay system that align rewards with learning and development.

Oıganization s also need to consider the opportunities for upward mobility that they provide to skilled workers and clerical lend technical employees.

**Career Authority and Control**

There are three principal means by winch the organizations can provide individuals with control over their careers.

First, it can develop a cadre of personnel development specialists to who employees may go directly to discuss their career goals and receive information about realistic career possibilities. These specialists are involved in helping managers find candidates for open positions and are aware of opportunities. They provide an employee with an alternative route for career management, if his base is ineffective or too controlling.

Second, employees can be asked to fill out an inventory of skills and job preference, which can be cross referenced for use in job searches.

Third, a system of job posting allowed employees to apply for other positions in the organization when they become vacant. An increasing number of organizations are using this method to give more direct career control to employers.

**Career Prospects in UK**

In general tone and standards of a public service are ultimately determined by the officials, conditions of service. A Civil Service may continue for some time to live upon past reputation or be dragged back by past inefficiencies at any rate to the limits of the working life of the present incumbents of public office. The actual conditions offered are the outcome partly of history and custom but mainly of public policy put into operation by the controlling authority. In the case of Britain, it is done by Her Majesty's Treasury.

In an economically constable world the offer of a secure pension ate employment has undoubtedly exerted a great influence upon the recruit to the Service. Permanency is certainly an important characteristic of British Civil Service pattern and, even if historical reason partly account for it, the resultant system is not valid on the account. Quite the contrary in fact, it is important to the efficiency of Cabined Government that it should be able to call upon the resources of a skilled professional administration. Permanency means a gradual accumulation of skill and the maximum return from training and experience inside the service. There is also the important practical point that; other things being equal permanency maximizes loyalty and reduces the dissemination of confidential official information that inevitably follows upon the flow of experienced staff out of the service, security of tenure is therefore offered to Civil Service recruit as a matter of course.

Without doubt those who adopt public service as a life career are more likely to be faithful servants of the nation. With increasing service they become more valuable to the State, while on the other hand their abilities become less and less likely to find a market outside the public field. This factor has certainly been modified by the growth of public administration in recent decades and by arrangements that have latterly been introduced to facilitate the interchange of staff between the Civil Service and other public fields. So long as the established Civil Service and other public fields. So long as the established Civil Servant continue to perform its duties with reasonable efficiency and to conduct himself with rectitude he is assured of security of employment. But all Civil servants are not established. There is an extensive temporary hinge to which these conditions do not apply.

The entrant to the Civil Service will most certainly be influenced not only by the immediate conditions of employment, but also by the career prospects of the particular branch which be proposed to enter. Advancement has been provided for by the system of grades within the classes which has been gradually evolved to meet this requirement. But the qualifications and qualities required for the different classes may restrict the scope for interflow between classes and the entrant to civil service, cannot normally expect his career to lead outside the class he chooses to enter. This is not strictly true in all cases and does to some extent depend upon the competence in the expertise required for the specific class. In

the case of Treasury classes, for example, the promotion avenue of the clerical officer entrant now leads into the Executive class (although before the war these was a separate clerical hierarchy). Despite official pronouncements equality of opportunity cannot yet be said to exist for all entrants of these several office classes. In their information booklets the Civil Service Commissioners give some indication of the career prospects at the various entry points, suggesting the grade to winch a normally successful officer may expect to rise, but in practice this is a matter still dependent very much upon opportunities occurring in the particular department to which the new entrant is assigned. Opportunities inevitably determined by unforeseeable future developments of the Departments work, and it is quite impossible to give more than a rough and ready forecast at such an early stage. The separateness of the Departments in determining such prospects in not: easily appreciated by those who believe the theoretical assumption of the unity of service. Having decided to avoid the incalculable element of chance in the field of outside employment, 'he civil servant soon finds himself subjected to a quite different but equally disconcerting chance situation inside the official sphere. As we shall see when considering the promotion arrangements, steps have been take constructively but not with complete success, to eliminate some of these, faults of the official career system. But the Britishers are still a long way from achieving a structure in which the serving official is able to contribute much to his own personal success.

**Career System in USA**

Consciousness of the importance of career development was accelerated in the U.S.A. at the time of the report of the commission of inquiry on Public Service Personnel in 1935. This body fostered particularly for the federal civil service the idea that a merit system for selection was not enough. It urged the creation of conditions that would provide true careers for these who entered the service with careful selection of talented persons at the various levels of graduation from educational institutions and with real opportunities or satisfying advancement to retain them in the service for a life time of growing importance in the development of career system patterns is the recognition of the public service as a place for parts of career as well as for life time career as well as for life time career. The movement of persons particularly those in professional research and managerial fields,

among industrial, educational and public places of employment is a distinctive American phenomenon.

In fact in future greater encouragement can be expected for movement among the three levels of public employment federal, state and local government. The career system of the USA has all those categories mentioned in the beginning i.e. Programme careers, Organization careers, closed and open careers, job oriented career and Rank in corps united. Because the Sixth American Assembly in 1954 and the Second Hoover Commission in 1955 insisted the need for a senior Civil service. Modifying the position-classification principle and seeking to overcome the tendency for the government's best career talents to be confined to individual department or programmes the senior civil service was conceived both as a more suitable personnel system for executive levels and as a means of providing a dependable and flexible supply of top level career people that would give political department heads more latitude in assigning and utilizing higher civil servants and preserve a strong career service from the temptation of political tampering. The tenure of career man exposed to direct relationship with political tampering. The tenure of career man exposed to direct relationship with political leaders would not be dependent upon his retention in any particular position while political executive would not be deprived of the knowledge, skill and continuity of a career group and could move members freely even though they were obliged to fill career posts only with senior civil servants. The executive assignment system, the product of several years of planning by the US civil service commission applies to the great majority of positions in the grades known as General Scheduled 16 17 and 18 (Executive order no 1135 Nov. 1996) separating out those jobs that are clearly non-career by nature of them relationship to political leadership the system is characterized mainly by a centralized perpetual inventory of the detailed back grounds of all persons in the civil service in these three grades plus the one below an inventory which must be consulted by appointing officials whenever a position in the three grades is to be filled.

**Career System in India**

The civil service in India, generally speaking is a career service. It is a career in the sense that most civil servants enter at an young age with the hope of life time employees have a career extending over a period of nearly three decades. The administration is not mere instrument of policies. It is something more than this. It has also to promote the growth and development of personnel in a systematic way to that they perform government functions with necessary talents in various positions.

The Royal Commission (The Isleton Commission of 1912-12) on civil service recommended the replacement of graded system by the incremental system of remuneration on the acceptance of the recommendation, the government introduced a system of pay scales with an efficiency bar between for all the civil service posts except the higher ones. The Royal Commission on the Civil service (1927-31) recommended that in the higher posts in the service, merit should be only consideration and not seniority. For the posts in the lower ranges it suggested that seniority and length of service should carry weight, it also recommended. Even in the lower ranges steps should be taken to ensure that exceptional merit rewarded by accelerated promotion.

The Administrative Reform Commission (1969) in its report on Personnel Administration made several recommendation for providing greater opportunities to government employees of lower ranks to rise rapidly as high as their competence and performance warrant. The Third Pay Commission (1973) also recommended changes in the promotion procedures. Commission stressed the need for further improvement in the existing promotion prospects of the Class III as well as Class IV cadre. The commission observed for enabling the brighter employees in Class II and Class in to get quicker promotion, it would be advantageous to introduce a larger number of limited completive examinations. If necessary the existing promotion quotas should be increased. The Commission further noted in our view no impairment in the efficiency of the public service should be countenanced, persons from the lower levels should be promoted only if they are found fit for discharging the duties of the high posts of efficiency.

However, in spite of steps taken by the government in the direction of employee development it cannot be said that the employees in general are happy about it. Career development in the wider perspective or providing the talented government employee to move from lower levels to higher levels crossing the boundaries or barriers of local rural and urban government/state and central government jurisdictions: if possible there must be provisions to absorb people from business enterprise also. From the stand point of civil servants career development should not be interpreted to imply simply promotion from Class IV to Class III or from Class III to Class II and Class 10. Rather it should be seen in the larger context of fulfilling one's personnel development capabilities and aptitudes to the full and contributing one's personnel development capabilities and aptitudes to the full and contribution one's talents to-the organization in the most productive way and through the planned exposure to different fields of work, duty station and staff members lateral transfers and a host of other measures including, but certainly not limited to promotion to higher levels.

## 10.6 Employee's Participation

Employee participation is a concept shrouded with much vagueness, for different people it has different meanings. Workers or employees participation is a crystallization of the nation of administrative democracy or industrial democracy it is an expression of the employer's desire to bind, employees into a team working together toward a common purpose. Participation is generally conceived of as a way of reducing power difference and therefore equality is stressed. It possess the following conceptual properties.

1. Thee amount of verbal interaction between a superior and his subordinates.
2. The degree to which superior performs his role in a group centered way
3. The degree to which a superior is active in making decision and setting goals for his work units

## Objective

The process has economic, psychological, social and ethical objectives. Its economic objective is to increase worker's productivity. This is possible only through

fullest co-operation between workers and management for poor employee-employer relations do not encourage the worker to give more than the minimum necessary to retain the job. The psychological objective is to raise worker's level of motivation. This is made possible under the scheme through the satisfaction of his non economic needs. Participation provides the worker with a sense of work man-ship and creativity. Socially the need for participation arises because modern industry is a social institution with the interests of the capital owner, the employer the community and the workers. Participation forges ties of between the two principal groups leading to better effort and harmony.

Participation may be defined mental and emotional involvement of a person in a group situation which encourages him to contribute to group objectives and share responsibilities in them. Thus three aspects could beseeched.

1. Participation means mental and emotional involvement other than mere physical activity.
2. Participation is motivating factor. It motivates a person to make his own contribution towards the objectives of the organization- In its way participation differs from consent. Participation is more than getting consent for something already decided.
3. Participation encourages a person to accept responsibility in the groups activities. It is a social process which makes a individual speak in terms of 'we' or collectively.

Despite the variation in interpretation there seems to be a consensus that participation means sharing in an appropriate manner, the decision making power with the lower ranks of the organization. The general assumption is that by using such a process employees would be able to contribute to the overall effectiveness of the organization. Five levels of participation in decision making have been identified, which range on a scale from minimum to maximum. Since these levels of participation can indicate the extent of co-determination in an organization they deserve attention. A brief explanation of these levels, would be more useful.

Information participation : This refers to the sharing of information concerning various aspects such as finance, the balance sheet, the position of production, economic condition, the future programme etc. Generally the employees in this regard cannot have close scrutiny of these information. On the other hand an accessibility to these details along with the management has its effect.

Consultative participation : Under the procedure the employees council is consulted on such matters as welfare programme and methods of work safety. Here the council work as an advisory body. Though the management takes the final decision, no progressive and successful management will totally reject the views of the employees.

Associative participation : This process makes the employees role more or less mandatory. On certain issues the management is under a moral obligation to accept and implement the unanimous decision of the employee's councils.

Administrative participation : In the field of administration the decisions which have been taken already come to the employee's council for the purpose finding out alternatives. Under such circumstances the degree of sharing authority and responsibility is a really a difficult issue. An efficient management always tries to accommodate the stand of employees.

Decisive participation : Where decision are related to production, efficiency, employee benefits etc. the joint Endeavour is stressed. The role of employees council has equal importance which the management willingly honor.

The level – up to which the company will allow the council to participate will depend on the philosophy followed by the management on the one hand and the nature of employees council on the other. Participation has been termed one of the most prominent constructs in group dynamics literature. Several empirical findings show that significant changes in human behavior can be brought about rapidly only if the persons who are

expected to change, participate in deciding what the change shall be and how it shall be made. Moreover the average awareness of the modern employee is such that the management will not succeed if it fails to understand the changed situation. The policy of hiring and firing, as an exclusively privilege of the management is no more true. With the available set of employees the employer should try to reach his goal. Instead of relying on coercive measures modern employer should dunk in terms of pleasing the employees. Employee development is as important as element as that of organization achievement. Number of modern legislations have also emerged, to protect, the employees from vindictive actions of the management. Hence employees participation is an inevitable process of modern personnel administration.

If utilized effectively employee's participation can serve a number of purposes all geared-to achieve effectiveness and the satisfaction of the employees. It is a process designed to inculcate the 'we' feeling among the employees. It helps in motivating employees to achieve organizational goals. It ensures Joint responsibility and co-operation to optimally utilize the limited resources available to the organization. We can specify four purposes.

1. It helps in managing resistance to change which is inevitable. For the growth and development of industry changes have to be welcomed otherwise the organization will stagnate and be left behind. If the need for change is jointly felt by all partners of production its acceptance can be high. Employee's participation is change strategy can facilitate acceptable solutions with a view to insecure effective and smooth implementation of decisions.
2. Participation ca encourage communication at all levels since both partners of production are involved in the decision making, there will be fewer chances of distortion or failure in communicating the decisions.
3. Joint-decision making ensures that there will be minimum industrial conflict and economic growth can be free from distracting strife.
4. Participation at the plant level can be seen as the first step to establishing democratic values in society at large.

The need for representation on the part of employees and for consultation on the part of management well be accepted and encouraged as a product of tune. Certainly representative of employees as a group likely to secure more respectfully hearing from management and to speak with more assurance and authority than would employees speaking individually. Management in turn, has much to gain from seeking employee view points.

1. Quite apart from the quality of daily supervision and other attributes of the motivational environmental management frequently needs to test employee interest and gauge employee opinion on service wide policy matters that are beyond the jurisdiction of individual executive or work units.
2. Soliciting employee views on prospective personnel policy avoids pitfalls that may not always be perceived by management acting alone pre-occupied as it is with the bird's eye view.
3. Consultation with employees usually creates better acceptance of change. Ideas or reforms might have been resisted if sprung on employees in full blown stage may actually enlist their support when employees representatives are brought in on the ground floor of initial planning.
4. Management frequently benefits by the positive ideas and proposals initiated by employee groups.
5. Mutual discussion promotes report and understanding that builds as useful continuing relationship and reduces the potentiality of conflict.

Of course such participation may be secured in a variety of ways. Where no employee organization of any kind exists, it behaves public management ot contrive some way tp get the views of the employees. This may be done through an established system of councils to which employees are asked to elect representatives.

Most of modern states have passed necessary legislations of consultative and negotiating process has been increasing year by year. Some provide for written agreement.

Such legislations clearly is to guarantee the employees as large a scope for negotiations as is possible in government with adequate protection at the same time for the management and the public against irresponsible employees actions.

As might be expected, efforts at collective negotiations bring in their team some complications and problems. One is the question of who is to be consulted or how to conduct the employee participation. The tendency, and it is thoroughly logical one is to rely on the personnel agency or division to carry on the process of consultation on behalf of all management. The expertise on personnel policy is presumably located them and it is in best position to co-ordinate unify the management position on issues that arise.

Over the question of encouraging the employee participation through councils there is the problem of determining the genuine representatives of the employees. Fragmentations of employee organizations has been a notorious stumbling blocks to consultative practices. More than one union in a given organization sometimes competing for membership among the same group of employees can effectively nullify sincere efforts by managements to secure employee co-operation.

Related is the question of what the unit for representation should be Generally this has been defined as any group of employees who have a community of interest either growing out of their common occupation or the programme in which they work. Because of the diversity and complexity of many governmental organization unit determination has very often presented an almost insoluble problem. In this case government runs directly into one of the banes of lab our organization, over specialization in unionism. Although it is the more ancient form the craft type union does not square with modern organizations reality.

The culmination of the most sophisticated form of employee participation is the written agreement. This is now common practice in most of the organizations. To be sure the scope of such agreement is necessarily confined to the sphere of legal competence of whatever governmental; body is a party to the process, an individual department or an

entire public jurisdiction once feared as encroachments on governmental authority, agreements are now widely accepted as simply the recordation of understanding that are within the province of the parties to carry out.

There are several other implications of employees participation that either have created or could generate serious problems. One is that as the basic levels in a pay schedule become grist for negotiating teams on a year round basis, a continuing budgeting appropriation system will have to be devised to permit executive and legislative accommodation to meet agreed upon scales promptly. Another problem is that nationwide unions with their strength and political power force regional negotiation and ultimately deprive the employees chances for effective participation. There is also the question of the negotiating expertise of those representing management. To keep up with the experienced and skillful negotiations on the employee side especially where union men can draw upon the cumulative wisdom of compatriots in the Industrial field, public officials must study their roles, confer with their counterparts in other Jurisdictions and take advantage of every educational facility and programme available to school themselves in the economic legal and Psychological aspects of collective negotiation.

In spite of problems which have been analyzed the participatory element in personnel administration still plays and it has to play greater role. Where written agreement or letters of confirmation are developed on such matters as wage policy, working hours, vacations, grievance procedure and working conditions they are subject to final endorsement by joint resolution of the employee and management. When wisely judiciously administered employee participation can provide a fruitful way to capitalize on the understandable desire of employees to exercise as a large and direct a role in maintaining efficiency and achieving organization goals.

**Employee participation in management in India**

There is a growing realization in several countries of the world that management is too important to be left to managers alone and that workers also should be allowed to participate in this field. In India worker's participation in management is one of the aspects of Directive principles of State Policy embodied in Article 43 A of Indian constitution :

'The state shall take steps' by suitable legislations or in any other way, to secure the participation of workers in the management or establishments or other organizations engaged in any industry. Several attempts were made to give effect to this constitutional imperative. Brief amount of them may be relevant here.

The first experiment began in 1947 when the industrial Disputes Act was passed. The Act was passed. The Act provides that in the case of any industrial establishment in which 140 or more workers are employed on any day in the proceeding 12 months the appropriate government may by general or special order require the employer to constitute in the prescribed manner a works committee consisting of representatives of employers and workman engaged in the establishment, so however, that the number of representatives of the workers on the committee shall not be less than the number of representatives of the employer. The representatives of the workmen shall be chosen in the prescribed manner form among the workers and in consultation with their unions if any registered under the Indian Trade Union Act 1926. It shall be the duty of the works committee to promote measures for securing and preserving unity and good relations between the employer and workmen and tie that end to comment upon matters of their common interest or concern and endeavor to compose any material difference of opinion in respect of such matters. But the legal definition of the scope and function of these committees unfortunately affected their effective roles, when disputes were taken to the courts, the verdicts did not strengthen the system. The remedy this defect the Indian Labors Conference drew up in 1959 an illustrative list of matters which these committees could deal with. The matter excluded from the purview of the committees, were wages and allowances, bonus, profit sharing rationalization and work loan fixation of standard lab our force, programmes of planning and development, retrenchment and lay off, victimization for trade union activities retirement benefits, provident fund and gratuity, quantum of leave and holidays incentive scheme and housing and transport service.

Although the above classifications about the scope and functions have proved generally helpful but there are numerous other difficulties which have led to the failure of these committees. They are:

1. There is lack of interest among workers due to assignment of minor functions to the works committees and exclusion of issues such as wages and allowances, bonus retrenchment, lay off etc.
2. There is lack of competence shown by the worker's representatives on these committees.
3. Some employers consider these committees substitute for collective bargaining and therefore, by pass the unions. Hence the unions view these committees as a threat to their very existence and in such apprehension lost all interest in their constitution.
4. Some employers insist upon their prerogatives and consider it below their dignity to sit on these committees with their employees.
5. Inter-union rivalries : Absence of provision to hold the elections of representatives by secret ballot or to recall a member who forfeits the confidence of the workers in general are also reasons responsible for the ineffectiveness of these committees.
6. The recommendations of these committees are advisory in nature and there is mostly delay in their implementation. This also dampens the enthusiasm of the workers.

The second experiment in participative management began in 1958 with the establishment of joint management councils. These came into existence as a result or our acceptance of the socialistic pattern of society as the goal, Indian Lab our conference recommendations to encourage participation of workers in industry (1954). The Industrial Policy Resolution statement which stressed the importance of lab our and encouraged the participatory management and the second Five Year Plans observation that for the successful implementation of the plan increased of association lab our with management is necessary. The immediate cause were the report of the tripartite study group which went to Europe and recommended a scheme for participative management (1957) and a model agreement regarding establishment of such councils.

It was decided that joint management councils should consist of an equal number of representatives of the management and employees not exceeding 12 should be set up at the plant level on a voluntary basis in selected industrial units were

i) The under-taking should employ at least 600 workers
ii) It should have a well established strong and representative worker's union affiliated to some central organization and
iii) The undertaking must be one with a good record of industrial relations. These councils are required to work at the policy level without encroaching upon the field of works committees. The majority view of the National Commission on Lab our was that these joint management councils were yet another bipartite consultative forums at the plant level which served on useful purpose and therefore functions could be amalgamated with the function of works committees.

Yet another experiment in participative management began in 1970 with launching of a scheme for the appointment of worker's representatives on the board of directors of nationalized banks. In pursuance to this scheme worker's directors were appointed in all nationalized banks. But a study of the working of this scheme in 1981 revealed that the scheme had not proved a success. In many cases worker's directors were ignorant about their role on the board or were in conflict with the board chairman. The Ministry of Finance which introduced this system through a notification removed these directors boards of all nationalized banks.

The fourth experiment in participative management began in October 1976. When the Central Government adopted through a resolution a new scheme of worker's participation in management. The Scheme covered all and mining industries employing 500 or more persons. The Scheme provided for the setting tip of shop councils at the shop and floor levels and joint councils at the plant level.

The fifth exponent began in 1977 when another scheme was introduced so as to extend the 1975 scheme to commercial and service organizations in the public sector having large scale public dealings. But this time also the success was not very noteworthy. A memorandum submitted to the Tripartite Lab our conference held in 1977 by the Ministry of Labor on the implementation of the scheme brought the following points.

1. Managements have directly or indirectly taken a paternalistic attitude as if it was a concession accorded to the trade unions of workers.
2. Exclusion of interest arousing issues from the purview of scheme has resulted in the lack of interest by the workers on their unions.
3. Managements have not often considered the scheme as an integral part of their organizational structure. Participative forums are often used as consultative forums rather than joint decision making forums.
4. For all practical purposes these councils became bargaining and negotiating forums

a) Their decision are mandatory and not advisory.
b) The participation has gone down to the floor level. c) Function of shop councils were clearly defined eliminating the earlier confusion.

The sixth experiment began in December 1983 when their Ministry of Labor of Government of India, notified another scheme of participation. This time the operation of the scheme has been restricted to central public sector undertaking only. Thus several schemes have come into existence such as the works committee, joint management councils, these schemes introduced after much modification in the light of past years experience we cannot say that a fool-proof scheme has been developed but we can hope for better system in future.

**10.7 Public Service Ethics**

Government officials and employees are not committed to loyal and effective performance but are obligated to carry out a public objective which in any nation controlled

by the people. Ethics are truly a part of competence, and they are part of democracy. Those persons who look upon public employment as an opportunity for self aggrandizement and for exercise of authority to favor themselves or their friends obstruct the interest of the common wealth both as to service to all the people.

In comparing the ethical problems of government employees those in private enterprise. write commonly refer to the public service as if it were an occupation on par. for example. with law. medicine, business engineering or teaching. As a matter of fact, of course. it is a composite of all occupations, not one. for which a separate discipline, a distinctive technical preparation, and a special code of conduct exist. It is a composite of occupations many of which themselves embrace definite ethics standards, in whatever context they may operate. Practically every occupation known to man is represented in the national public service.

Within public employment the group on which the greatest attention centers as to moral behavior is that comprising the professions, the managerial specialties, and the executive class in general-Occupations, in which some degree of judgment or discretion is exercised in the execution of public policy For many routine occupations it would be difficult to distinguish between the standards to be expected of those engaged in private employment and of those working in government. The same obligations of care and integrity prevail for clerical, and technical personnel in the public service as exist for these groups in the business world. The book-keeper is under the same moral compulsions in one place as in the other. The laboratory technician's processing of blood samples in a hospital must be viewed in the same ethical light regardless of whether the institution is publicly or privately owned. But when we think of the bureau chief, the sanitation engineer, the tax assessor, the park ranger, the police officer, the personnel examiner, the public school teacher, we see categories of workers on whom special ethical obligations rest that have little counterpart in private enterprise. For it is in the hands of such persons that discretion lies in the application of the publicly (democratically) adopted laws and rules however minor they may be which constitute governance. Thus, while this is not the

place for a disquisition on morality in general, it is worth while to give some attention to its special characteristics in the public service.

To be sure, the most influential public servants, when it comes to ethical performance, are the men at the top. They set the tone for an entire enterprise.

**Right and Wrong in Public Service**

Over the centuries philosopher have debated the relative merits of ways of looking at and measuring moral behavior. Various sets of virtues and human goals have been advanced as the best ways to understand and to implement achievement of what is "good" Ethical pluralists, in modern times have argued that single laws of ethics cannot define the means to good ends or explain man's obligations. A variety of tests, they say, must be employed to ascertain when choices and decisions serve morally justifiable purposes – Elaboration of no one virtue such as honesty, justice, selflessness, or courage – will provide the satisfactory measure. Good behavior emerges from applying them all. Certainly, the pluralistic approach has the appeal of common sense and would seem most applicable to performance in the public service.

But applying any tests to the goodness of behavior of public officials poses some very complex and agonizing problems that transcend those common to other human interrelationships. Some of major issues deserve a brief review here.

**The Democratic Base**

Problems of ethical conduct wise for the public official by virtue of the power and influence he commands and the commitment he undertakes of loyal and disinterested service to the public. In a democracy, authority is derived from the consent of the governed. Public administrations therefore must serve the public in a manner that strengthens the integrity and processes of a democratic society. This fundamental principle has at least three implications for performance in a government position, especially as we move up the hierarchy to those of the greatest responsibility. It means.

1. That all the people must be served, equally and impartially,
2. That this must be achieved with full respect of and reliance on representative institutions; and
3. That internal administration in public agencies must be consistent with the modes of behavior.

One of the most difficult concepts to define is the public interest". But without getting lost in the fine points as to whether there is a single or whether there are multiple "public" to be served, we can safely assert that the civil servant and political should above all, think in terms of the total welfare, the overall good, the long-range effect, and eschew the temptation to please just the individual or group pressing its case before him. The Paul H. Appleby put it well "in nearly all administrative decisions the sense of virtuous performance is to be pursued by attempting to inject some increased allowance for the more public interest and some increased concern for those citizens not immediately present of heard".

The objective is neither clear nor easy. It is not too difficult to regulate the behavior of officials on outright or potential conflicts of personal interest with public welfare, especially where is involved. "The harder and infinitely more important issue of administrative morality today", says Frederick C. Mosher, "attends the reaching of decision on questions of public policy which involve competitions in loyalty and perspective between abroad goals of the polity (the phantom public interest) and the narrower goals of a group, bureau, clientele, or union". As another writer expresses the point, "In public service much of the ethical uncertainty flown from a tormenting contradiction. The public servant is committed to serve the public, but it is never the abstract that asks for a favor, bids for a contract, of hopes for a job. It is always a concrete person. And action that would appear to be resplendent in the light of the public interest may lose its luster when it reflects upon the interests perhaps the perfectly legitimate interests of some person". The responsibilities of government employees to the public, to the law, and to their current political leadership are tied together by the common bond of democratic consent which leads us to the second implication that may be perceived in trying to understand the

democratic base for public service ideals. One of the principles for the average civil servant to appreciate and to honor is complete dependence on the will of the people.

One of the tests of the public employee's dedication is his earnestness in recognizing the importance of letting "the people decide for themselves what policies and objectives the public service shall have'. He must have an abiding faith in democratic processes, in making certain that it is not just his personal view but that of the people as expressed in law and declared policy to which he gives effect Where he has the latitude to make choices, he must continually apply the rule: is this action consistent with all the objective and requirements that impinge on it? Democratic government can succeed only as its agents display a healthy respect for and intelligent understanding of the democratic environment.

Finally, in this dissection of democracy's meaning for ethical performance, we must consider the character of a public agency's internal administration. A cardinal tenet of our democratic faith is respect for human personality, for individual dignity and worth. If we have emphasized many tunes, the success and coincidentally the moral behavior of an administrative undertaking depends ultimately upon the capacity, the integrity, and the motivation of its workers, then it would be the better part of wisdom to view the manner of running the enterprise as a major contributing factor in achieving a moral climate. We have seen that an organization is effective in almost direct proportion to the degree to which its employees have pride in its work, identify personally with its goals, and sense a genuine open opportunity to participate to their fullest capacity in attaining its mission. Ethical necessities in their broadest sense require that administrators commit themselves to "a philosophy of personal end group living which allows everyone to live, work, and contribute to the general goods' To put it bluntly, it is unlikely that employees can have a consciousness of and be motivated toward a democratic role in relation to the public if there is little democratic practice and recognition of the dignity of man in internal administration in other words, ethics begin at home.

**The Limits of Specialization**

Both the specialization of the individual and of the institution give rise to some risks in the moral level attained by a governmental organization. Since specialization has its advantages any, since it is idle to think of dispensing with it in any true sense, behaves, us to understand it and to live with it. But we must beware of its limitations. The public servant must not only assure that his technical judgments are enriched by value principles and his decisions infused with concern for human needs and goals, he must first of all try to see his whole field in perspective in pursuit of the general welfare "there must be care not to confuse one's professional viewpoint functional preoccupation, or personal prejudices with the public interest'. Indeed, reconciliation of our necessary dependence on experts in government with the realities of public needs and with the inexorable pressure of change poses a central problem of statesmanship and is therefore at the heart of the civil servant's moral imperatives.

No one has elucidated the limitations of the specialist more brilliantly than Harold J. Lake earlier in this century. A political system which fails to keep the expert under control, he said "will lack insight into the movement and temper of the public mind. It will mistake its technical results for social wisdom, and it will fail to see the limits within which its measures are capable of effective application. The expert by definition, lacks contact with the plain man". At another point he observed: "The expert, in fact simply by reason of his immersion in a routine, tends to lack flexibility of mind once he approaches the margins of this special theme." And again, "Expertise, it may be argued, sacrifices the insight of common sense to intensity of experience. It breeds an inability to accept new views from the very depth of its preoccupation with its own conclusions. It too often fails to see round its subject."

In the last analysis society Generally as a whole must bear the responsibility for ethical conduct in public affairs. Those who complain to corruption but busy themselves with seeking special benefits not available to the general public are the more serious corruptions. And as the man who served as staff direct of the Task Force on Personnel of the second Hoover Commission put it. "The business executive who thinks only in terms

of his corporation, the labor leader who thinks only in terms of his corporation, the labor leader who thinks only in terms of his union, the leader of organized agriculture who thinks only in terms of his farm organization are all a menace to the basic integrity of the nation... In a fine society responsibilities of the statesman fall on everyone, and upon each person in accordance with his power and ability." If the facts were known, we would unquestionably find more people dedicated to the public interest as a whole within the public service than outside it. Many persons are attracted to government in the first place by a genuine zeal for identification with a large, good than some narrow economic, social, or sectional interest.

### 10.8 Recent Development In Financial Administration

A number of development have taken place in financial administration in recent years. These reforms are found in the Management of Deficit Financing and Public Debt Management. Let us discuss in this essay the new development that have taken place in financial administration in recent years.

### 10.9 Deficit Financing

The various sources of funds to finance economic development in the modem states are:

1. Taxation,
2. Public borrowing
3. Government savings,
4. Surplus of public enterprises,
5. Deficit financing, and
6. External assistance.

**CYP Question**
3. Examine the Management of Deficit Financing in India.

**Meaning**

Deficit financing in general, refers to any public expenditure that is 'in excess of current public revenue. In the Western Countries and the USA, the term 'deficit financing' is used in a wider sense while, in India, it is used in a narrower sense.

In the Western Countries and the USA, government expenditure financed through public borrowings (i.e. from people, commercial bank, and the Central Bank) are included in deficit financing.

In India, on the other hand, government expenditure financed through borrowing from people and commercial banks are excluded from deficit financing. These are known as market borrowings.

According to the Planning Commission, deficit financing in India; and includes:

1. Withdrawal of past accumulated cash balances by the government;
2. Borrowing from the Central Bank, that is, the Reserve Bank of India, and
3. Issuing of new currency.

As observed by Misra and Puri,"when government borrows from the Reserve Bank of India, it merely transfers its securities to the Bank which, on the basis of these securities, issues more notes and puts them into circulation on behalf of the government. This accounts to creation of money,".

In short, the deficit financing in the Indian context reveals direct increase in money supply through the issue of fresh currency by the government in order to meet the budget deficit.

**Concepts**

The Government of India recognizes five concepts of deficit financing . They are:

**1. Revenue Deficit**

When revenue expenditure of the government is more than its revenue receipts, it is known as revenue 'deficit. The revenue expenditure of the government comprises the resources spent on those items which do not create assets like expenditure on civil administration, defense, law and order, justice, interest payment, subsidies and so on. The revenue receipts of the government include tax revenues.

**2. Budget Deficit**

When the total expenditure of the government its more that its total receipts, it is known as budget deficit or overall budgetary deficit. The total expenditure of the government includes both revenue expenditure and capital expenditure. Similarly, the total receipts of the government include both revenue receipts and capital receipts.

**3. Fiscal Deficit**

Since 1950, the Government recognized the above two concepts of deficit. Later in 1986, the third concept of deficit, called fiscal deficit, was introduced on the recommendation of the Sukhmoy Chakra arty Committee (1982-1985) on the Review of the Working of the Monetary System in India. The fiscal deficit refers to budgetary deficit plus market borrowing and other liabilities of the government. It measures the total borrowing requirements of the government from both internal and external sources.

**4.Primary Deficit**

It indicates the fiscal deficit minus amount of interest paid by the government. It is also known as non-interest deficit. This concept of deficit was introduced recently.

**5. Monetized Deficit**

The budget deficit can be financed in two ways; either by borrowing from the public or by borrowing from the Reserve Bank, of India (RBI). When it is financed through borrowing from the RBI, it is called Monetized Deficit. In other words, it is increased in the net RBI credit to the Government.

**Rote**

Modern states have resorted to deficit financing under three different circumstances;

1. **Depression**

The developed countries of Europe and USA resorted to deficit financing during the great depression of 1930s to deal with the problem of mass unemployment. It was J.M. Keynes who suggested the logic of deficit financing to fight cyclical depressions in capitalist countries and to eliminate mass unemployment. He opined that the main cause of

unemployment in a developed country is lack of effective demand (for goods). which depends on the propensity for consumption. To overcome this problem. Keynes suggested deficit financing to finance public works projects. In case public works are not available, the governments should. according to Keynes. ask people to "dif well and fill wells". This increases the purchasing power of people and results in effective demand for goods. This further increases employment which again increases effective demand and hence employment and so on.

Keynes called it "multiplier effect". In this way. the economy can be revived and lifted from the morass of depression.

**2. Economic Development**

The developing countries including India have resorted to deficit financing for financing economic development. This is because. these countries do not have sufficient resources to finance public investment to accelerate the process of development. The deficit financing helps rapid capital formation for economic development. It breaks bottlenecks and structural rigidities in the economy and thereby increases productivity. Thus. it provides stimulus to economic development by financing investment, employment and output in the economy. However, it has a negative effect on the economy. that is. inflationary rise in prices of goods and services. This is because, the deficit financing increases the supply of money in the economy without a corresponding increase the supply of money in the economy with a corresponding increase in supply of goods and so-vices. This inflationary character of deficit financing changes the pattern of investment by people, results in forced savings, adversely affects balance of payment. increases economic inequalities, increases credit creation by banks and so on.

**3. War**

The modern states have also resorted to deficit financing to finance war operation. The financial resources raised by the government through taxation and borrowing do not suffice to meet the cost of war. Hence, the governments have no alternative except to create new money by printing more currency. This was deficit financing brings in circulation a large quantity of money in the economy. This increases the monetary

incomes and demand for goods. Such a situation results in inflation due to absence of corresponding increase in supply of goods.

**Safe Limit**

Deficit financing is a necessary evil. On the one hand, it is essential for economic development and on the other hand, it is intrinsically inflationary in nature. Hence, it should be kept within the safe limit so that it leads to capital formation without inflationary rise in prices. The various factors which determine the safe limit of deficit financing (or the measures needed to keep the deficit financing within safe limit) are as follows:

1. Effective efforts should be made to map up surplus money by higher taxation and increased loans.
2. The quantity of money injected into the economy should be to the extent of the rate of growth of the economy.
3. The newly created money should be used for productive purposes like irrigation, industrial development and so on.
4. The deficit-inducted additional money should be used for the promotion of those projects, which have short gestation period. This will increase the supply of goods quickly and thus check the price rise.
5. Efforts should be made to transfer the non-monetized sector (barter part of the economy) into the monetized sector.
6. There should be an effective regulation of prices of goods and distribution of goods through rationing.
7. The import of capital equipment, industrial raw material and food gains should be encouraged and that of luxury and semi-luxury goods should be discouraged.
8. The people should have the spirit of sacrifice and extend their cooperation in the implementation of the policies for reducing the price effect of deficit financing for capital formation.
9. The government should offer incentives to increase production in private sector.
10. Credit creation policies should be integrated with deficit financing to regulate the increased credit creation by banks.

**10.10 Public Debt Management**

Public debt is an instrument of resource mobilization by the modem government.

The revenue raised through taxation and other sources is not sufficient to meet the increased expenditure of the government. Revenue from taxation cannot be raised beyond a certain limit while, the deficit financing becomes inflationary when it crosses the safe limit. Hence the government has to resort to public debt to accelerate the process of development.

**Meaning**

Public debt denotes borrowing by the government from the people, banks, financial institutions and so on. The following definitions can be noted in this regard.

**Philip E. Taylor**

"The debt is in the form of promises by the treasury to pay to the holders of these promises a principal sum and in most cases interest on that principal."

**R Musgrave and P. Musgrave**

"Public borrowing involves withdrawal made in return for the government's promise to repay at a future date and to pay interest at the interim."

**J.K. Mehta**

"Public debt carries with it the obligation on the part of the government to pay money back to the individuals from whom it has been obtained."

To sum-up, public debt is the debt incurred by the government in mobilizing resources in the form of loans, which are to be repaid at a future date with interest.

**Classification**

Public debt is classified in the following ways:

1. **Internal and External**

When the government borrows within the country, it is called internal debt. When the government, on the other hand, borrows from outside the country, it is called external debt. Internally, the government borrows from individuals, business establishments, financial

institutional, commercial banks, and central bank. Externally, borrows from foreigners, foreign banks, foreign governments, and international institutions- Unlike internal debt, external debt involves material loss to the debtor country.

**2. Voluntary and Compulsory**

When the government borrows by issuing securities to which people are free to subscribe, it is called voluntary debt. When the government, on the other hand, enforces borrowing through legal compulsion, it is called compulsory debt. Generally, public debts are voluntary in nature. The government resorts to compulsory loan under extraordinary circumstances like war, famine, or to curb inflation.

**3. Productive and Unproductive**

Productive debt is one, which is incurred for those projects, which yield income to the government. For example, the debt incurred to meet expenditure on power projects, irrigation projects, public enterprises, and railways. The income derived from these assets is used to pay the interest and the principle of the debt. Unproductive debt, on the other hand, is one which neither yields any income to the government nor creates any asset. For example, debt incurred to cover any budgetary deficit or to finance war, earthquake, famine and drought called these two types of debts as active debt and dead weight debt respectively.

**4.Funded and Unfunded**

Funded debt is a long-term debt, payable after a year, while unfounded debt is a short-term debt, payable within a year. The former is incurred to create a permanent asset, whereas the latter is incurred to meet temporary gap in budget. Unfounded debt is also known as floating debt and includes treasury bills, ways and means advances from central bank and so on.

**5. Redeemable and Irredeemable**

When the government borrows money with a promise to pay off in future at a specified date, it is known as redeemable debt. When the government, on the other hand, borrows without any intention to repay the same in future, it is known as irredeemable debt. However, the government continues to pay the interest on such loans. The redeemable and irredeemable debts are also known as terminable and perpetual debts.

A situation in which borrowings have to be resorted to just keep up with the servicing of debt is known as 'debt trap'. Debt servicing denotes payment of interest on debts as well as repayment of installments of debts. The debt trap could be both internal and external.

**Redemption**

Redemption of public debt means repayment of public debt. There are various methods of redemption of public debt:

**10. Refunding**

In this method, the government issues bonds and securities in order to repay matured loans. In other words, matured or old debts are replaced by new debts. Hence, the money burden of the debt is not relinquished. Rather, it is accumulated due to the postponement of debt repayment.

**2. Terminable Annuities**

In this method, public debt is repaid in equal installments. The government repays a part of the debt every year by issuing terminable annuities. Thus, the debt goes on diminishing annually and finally it vanishes.

**3. Conversion**

When the rate of interest low, the government converts the old loan into a new loan and thus reduces interest payments. It may be compulsory or voluntary. Unlike refunding, conversion involves changes in terms of loan including rate of interest-Dalton called this conversion process a 'Partial repudiation.

**4. Sinking Fund**

It connotes a 'debt redemption fund'. It involves the creation and the gradual accumulation of a separate fund by the government every year from its revenues to repay the debt. Although it is the most systematic method of redemption, it is a slow process and the government may encroach upon it during a financial crisis.

**5. New Taxation**

In this method, the government imposes new taxes and raises money for the repayment of old debts. It transfers the resources from taxpayers to the bond holders and thus causes redistribution of income and wealth in the community.

**6. Capital Levy**

It connotes a special 'redemption levy. Under this method, there will be single but very heavy taxation on the property and wealth of individuals; levied once for all for the clearance of the debt. Its merit is that the country is thereby freed from the burden of interest payment in future.

**7. Surplus Budget**

Under the surplus budget (income exceeding expenditure) the government is left with some money, which can be used for the clearance of debts. A surplus budget can be realized in two ways:

a) Through heavy taxation, or
b) Through reduction in government expenditure.

**8. Surplus Balance of Payment**

The repayment of external debt requires a surplus balance of payments (BOP). Hence, the government should accumulate the necessary foreign exchange by creating export surplus and by reducing imports. Temporarily, the external debt can be repaid through the floating of new external loans.

**9. Currency Expansion**

Under this method, the government prints more currency to repay the debts. This results in inflation, and destroys the value of fixed money claims. This method was used by Germany after the First World War (1914-1918).

**10. Repudiation**

In this method, the government refuses to pay the interest of principal or both- In other words, the government does not recognize its obligation to repay the loans take by it. In 1917, USSR repudiated all its debts, both internal and external.

**Burden**

Public debt is a burden as it has to be repaid with interest. The burden of public debt can be studied under the following heads:

**10. Direct money Burden**

The internal debt does not impose any direct money burden on the community as a whole. It only involves the transfer of wealth within the community. In other words, the payment of interest results in the transfer of purchasing power from on esection to another Thus, all money payments, that is amounts paid by tax payers and the amounts received by the bond holders, cancel out.

External debt, on the other hand, imposes direct money burden. The debtor-country has to pay interests and repay the principal amounts to the creditor-country. In other words, the purchasing power is transferred from citizens to foreigners. The direct money burden of the external debt varies with the size of the debt.

**2. Indirect Money Burden**

The internal debt imposes an indirect money burden on the community. The productive spending by the government creates the demand for commodities and service. This imposes an additional burden on the community due to rise in their prices.

The external debt also imposes an indirect money burden. The debtor-country's interest payment to creditor-country in kind causes a decline of the economic welfare of the community. This is because of the increase in the prices of goods and services within the country.

**3. Direct Real Burden**

The internal debt imposes direct real burden on the community by increasing economic inequalities. The government collects taxes from the people to pay the interest and repay the principal amounts to the creditors.

This results in the transfer of purchasing power from poor people (the taxpaying section of the community) to the rich people (the lending section of community): Similarly the external debt also imposes direct real burden on the community.

**4. Indirect Real Burden**

The internal debt imposes indirect real burden on the community. The increased economic in equalities have an adverse effect on the capacity of the people to work and save. It results in the decline of the productive capacity of people.

The imposition, of additional taxes to repay the external debt also has the similar indirect real burden on the community.

## 10.11 Summary

Despite the best management practices in acting and communicating, conflicts between employee and the organization will occur. A total absence of conflict would be unbelievable and strong indications that such conflicts are being suppressed. Proper appraisal programme serves general useful purposes. It can serve as a basis for job change or promotion. For the purpose of deciding about suitable training and development programme this will be useful. The government of India recognizes five concepts of deficit financing. They are Revenue Deficit, Budget Deficit, Fiscal Deficit, Primary Deficit, and Monetized Deficit and its role can be divide three different circumstances are Depression, Economic Development and War. Public Debt is classified in the ways of internal and external, voluntary and compulsory, productive and unproductive, funded and unfunded, and redeemable and irredeemable.